



Dave Yost • Auditor of State

OHIO AUDITOR OF STATE KEITH FABER



January 22, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

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

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469

To the Governing Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Dayton Early College Academy, Montgomery County, Ohio (the Academy), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dayton Early College Academy, Montgomery County as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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.

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2018

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The management's discussion and analysis of the Dayton Early College Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2017 are as follows:

- In total, net position was (\$6,004,495) at June 30, 2017.
- The Academy had operating revenues of \$2,249,200, operating expenses of \$3,853,811, non-operating revenues and contributions and donations of \$1,983,939, and non-operating expenses of \$2,653 for the fiscal year ended June 30, 2017.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows

These statements look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows 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 will take into account 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 that position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-33 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 35-42 of this report.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The table below provides a summary of the Academy's net position at June 30, 2017 and June 30, 2016.

Net Position		
	2017	2016
<u>Assets</u>		
Current assets	\$ 1,228,530	\$ 1,042,143
Capital assets, net	208,046	93,824
Total assets	1,436,576	1,135,967
<u>Deferred Outflows of Resources</u>		
	1,287,935	659,641
<u>Liabilities</u>		
Current liabilities	212,973	454,455
Non-current liabilities	7,992,764	7,060,094
Total liabilities	8,205,737	7,514,549
<u>Deferred Inflows of Resources</u>		
	523,269	662,229
<u>Net Position</u>		
Net investment in capital assets	171,279	27,202
Restricted	523,650	456,603
Unrestricted (deficit)	(6,699,424)	(6,864,975)
Total net position	\$ (6,004,495)	\$ (6,381,170)

During a previous fiscal year, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" 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:

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

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

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

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Academy's net position totaled (\$6,004,495).

At year-end, capital assets represented 14.48% of total assets. Capital assets consisted of equipment and vehicles. Net investment in capital assets at June 30, 2017, was \$171,279. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The table below shows the changes in net position for the fiscal year 2017 and 2016.

Change in Net Position

	2017	2016
<u>Operating revenues:</u>		
State foundation	\$ 2,127,869	\$ 3,102,627
Classroom materials and fees	-	58
Charges for services	1,800	6,716
Other	119,531	31,670
Total operating revenues	2,249,200	3,141,071
<u>Operating expenses:</u>		
Personnel services	2,395,967	3,544,376
Purchased services	955,435	695,405
Materials and supplies	93,081	173,411
Other operating expenses	365,474	193,771
Depreciation	43,854	36,052
Total operating expenses	3,853,811	4,643,015
<u>Non-operating revenues/(expenses):</u>		
Intermediate, state and federal grants	1,001,750	564,317
Earnings on investments	4,838	2,552
Intergovernmental expense	-	(230,000)
Donations and contributions	977,351	790,244
Interest and fiscal charges	(2,653)	(4,106)
Total non-operating revenues/(expenses)	1,981,286	1,123,007
Change in net position	376,675	(378,937)
Net position at beginning of year	(6,381,170)	\$ (6,002,233)
Net position at end of year	\$ (6,004,495)	\$ (6,381,170)

Operating revenues of the Academy decreased \$891,871 or 28.39%. This decrease can mainly be attributed to a decrease in State foundation revenue. State foundation revenue fell due to fewer students served by the Academy compared to fiscal year 2016. This was the result of the Academy moving 7th and 8th grade to DECA Prep at the beginning of the fiscal year.

Operating expenses decreased \$789,204 or 17.00%. This decrease is primarily the result of moving the 7th and 8th grade teachers to DECA Prep at the beginning of the fiscal year.

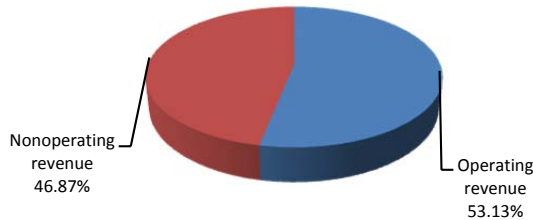
Intermediate, state and federal grants increased \$437,433 due mainly to an increase in the Federal lunch program funding.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

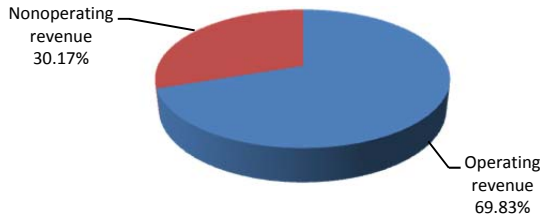
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The graphs below illustrate the revenues and expenses for the Academy during the fiscal year 2017 and 2016.

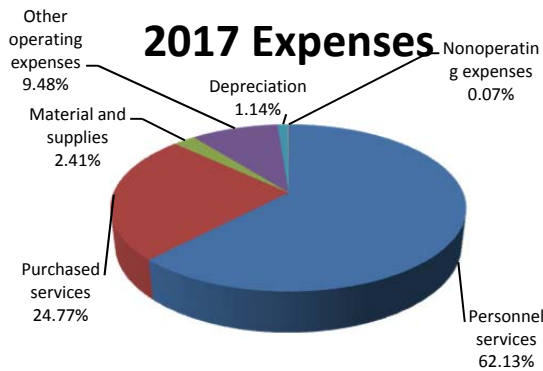
2017 Revenues



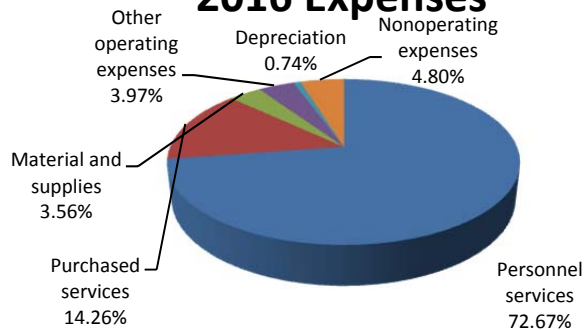
2016 Revenues



2017 Expenses



2016 Expenses



Capital Assets

At June 30, 2017, the Academy had \$208,046 invested in equipment and vehicles. See Note 7 to the basic financial statements for more detail on capital assets.

Debt Administration

At June 30, 2017, the Academy had \$36,767 in capital leases outstanding. Of this total, \$31,382 is due in one year and \$5,385 is due in more than one year. See Notes 6 and 9 to the basic financial statements for more detail on debt.

Current Financial Related Activities

The Academy was sponsored by Dayton City School District for fiscal year 2017. The Academy switched sponsors in fiscal year 2018 to the Thomas B. Fordham Foundation. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Phil Hinson, Treasurer, Dayton Early College Academy 300 College Park. Dayton, OH 45469-2930.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 372,754
Cash with fiscal agent	446,518
Receivables:	
Accounts	43,679
Intergovernmental	339,991
Prepayments	25,588
Total current assets	1,228,530

Non-current assets:

Depreciable capital assets, net	208,046
Total non-current assets	208,046
Total assets	1,436,576

Deferred outflows of resources:

Pension - STRS	1,086,055
Pension - SERS	201,880
Total deferred outflows of resources	1,287,935

Liabilities:

Current liabilities:

Accounts payable	10,518
Accrued wages and benefits	153,820
Pension and postemployment benefits payable	15,899
Intergovernmental payable	1,354
Capital leases obligation	31,382
Total current liabilities	212,973

Non-current liabilities:

Capital leases obligation	5,385
Net pension liability	7,987,379
Total non-current liabilities	7,992,764
Total liabilities	8,205,737

Deferred inflows of resources:

Pension - STRS	410,815
Pension - SERS	112,454
Total deferred inflows of resources	523,269

Net position:

Net investment in capital assets	171,279
Restricted for:	
Restricted for locally funded programs	298,705
Restricted for state programs	3,600
Restricted for federal programs	183,921
Restricted for food service operations	37,424
Unrestricted (deficit)	(6,699,424)
Total net position	\$ (6,004,495)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
State foundation	\$ 2,127,869
Charges for services	1,800
Other	119,531
Total operating revenues	<u>2,249,200</u>
 Operating expenses:	
Personnel services	2,395,967
Purchased services.	955,435
Materials and supplies	93,081
Other operating expenses.	365,474
Depreciation	43,854
Total operating expenses.	<u>3,853,811</u>
 Operating loss	 <u>(1,604,611)</u>
 Non-operating revenues (expenses):	
Intermediate, state and federal grants	1,001,750
Earnings on investments	4,838
Donations and contributions	977,351
Interest and fiscal charges	(2,653)
Total non-operating revenues (expenses)	<u>1,981,286</u>
 Change in net position	 376,675
 Net position at beginning of year	 <u>(6,381,170)</u>
Net position at end of year	<u>\$ (6,004,495)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from foundation	\$ 2,022,279
Cash received from charges for services.	1,800
Cash received from other operations	75,852
Cash payment for personnel services	(2,294,723)
Cash payments for purchased services	(1,100,530)
Cash payments to suppliers for goods and supplies	(100,287)
Cash payments for other expenses	(365,474)
	(1,761,083)
Net cash used in operating activities	(1,761,083)
Cash flows from noncapital financing activities:	
Cash received from intermediate, state and federal grants	839,512
Cash received from donations and contributions	976,151
	1,815,663
Net cash provided by noncapital financing activities.	1,815,663
Cash flows from capital and related financing activities:	
Interest paid on capital leases	(2,653)
Principal paid on capital leases	(29,855)
Acquisition of capital assets	(158,076)
	(190,584)
Net cash used in capital and related financing activities.	(190,584)
Cash flows from investing activities:	
Interest received	4,838
	4,838
Net cash provided by investing activities	4,838
Net decrease in cash and cash cash equivalents	(131,166)
Cash and cash equivalents at beginning of year	950,438
Cash and cash equivalents at end of year	\$ 819,272
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,604,611)
Adjustments:	
Depreciation	43,854
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	(43,679)
Intergovernmental receivable	(88,411)
Prepayments	(22,025)
Deferred outflows of resources - pension - STRS	(500,990)
Deferred outflows of resources - pension - SERS	(127,304)
Accounts payable.	(110,893)
Accrued wages and benefits	(39,107)
Intergovernmental payable	(70,341)
Pension and postemployment benefits payable	(22,668)
Net pension liability	964,052
Deferred inflows of resources - pension - STRS	(144,015)
Deferred inflows of resources - pension - SERS	5,055
	(1,761,083)
Net cash used in operating activities	\$ (1,761,083)

Non-cash transaction:

During fiscal year 2017, the Academy received \$88,142 in non-operating grants, which was recognized as a receivable at June 30, 2016. A receivable in the amount of \$251,580 has been recorded for non-operating grants at June 30, 2017.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE ACADEMY

Dayton Early College Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-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 mission of the Academy, one of the first institutions of its kind in the United States and the first early college high school in Ohio, is to maximize each student's unique potential through a personalized, accelerated academic program. The Academy addresses a critical need in urban public schools to help students, particularly those underrepresented in higher education, to explore their personal and intellectual potential, achieve academic success, and make a seamless transition from high school to college. The Academy was developed out of a partnership between the University of Dayton and the Dayton City School District. Fiscal year 2008 represented the first year of operation of the Academy as an independent charter school. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may 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 Dayton City School District (the "Sponsor") for a period of five years commencing July 1, 2007 and ending June 30, 2012. During fiscal year 2012, the Academy and Sponsor approved an additional contract for a period of five years commencing July 1, 2012 and ending June 30, 2017. The Sponsor is responsible for evaluating the Academy's performance and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy operates under a self-appointing twelve member Governing Board (the "Board"). The Board is composed of a Chairman, Vice Chairman, Parent Representative and nine Board members. The Academy's Treasurer is a non-voting member of the Board. The Academy's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by 32 certified full-time teaching personnel and 5 non-certified employees who provide services to 287 students.

The University of Dayton provides educational assistance/opportunities for the students and professional development for the staff of the Academy. The University of Dayton also provides the Academy with facilities (See Note 10) and fiscal support for donations and grants. These monies are held in separate accounts by the University of Dayton and are presented as "cash with fiscal agent" on the statement of net position (See Note 4). The Dayton Foundation also provides the Academy with fiscal support for donations and grants. These monies are held in separate accounts by the Dayton Foundation and are presented as "cash with fiscal agent" on the statement of net position (See Note 4).

NOTE 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.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources are included on the statement of net position. Equity consists of net total position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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) until then. For the Academy, see Note 13 for deferred outflows of resources related 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, see Note 13 for deferred inflows of resources related to the Academy's net pension liability.

D. 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, unless specifically provided in the school's contract with its sponsor. The contract between the Academy and its Sponsor requires a detailed Academy budget for each year of the contract; however, the budget does not have to follow Ohio Revised Code Section 5705.

The Academy's Board adopts a formal budget at the beginning of the Academy year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The Academy Principal and Business Manager are responsible for ensuring that purchases are made within these limits.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Investments

All cash the Academy receives is maintained at a central bank. The Academy also has cash that the University of Dayton and the Dayton Foundation hold and is reported as "cash with fiscal agent". For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2017, the Academy invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Academy measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

During fiscal year 2017, cash the Academy received was maintained in demand deposit accounts.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$2,500. The Academy does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of equipment and vehicles is computed using the straight-line method over estimated useful lives of five to ten years.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. For the Academy, these revenues are payments from the State foundation program, classroom materials and fees and food service charges. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the OneNet grant, the Federal IDEA Part B grant, the Federal Title I grant, the Federal Title II-A grant, the Federal School Breakfast Program and the Federal School Lunch Program. Revenues received from the State Foundation Program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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. Intermediate, State and Federal grant revenue for the fiscal year 2017 was \$1,001,750.

I. Prepayments

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

J. Compensated Absences

The Academy accrues a liability for employees that were Board approved to receive severance.

K. Estimates

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

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. 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.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. 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.

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2017, the Academy 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.

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.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Cash with Fiscal Agent

The Academy had \$446,518 in cash held by the University of Dayton and with the Dayton Foundation at June 30, 2017. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. This amount is not included in the “deposits” reported below.

B. Cash on Hand

At fiscal year end, the Academy had \$100 in undeposited cash on hand which is included on the financial statements of the Academy as part of “equity in pooled cash and cash equivalents”.

C. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all Academy deposits was \$338,361. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$148,509 of the Academy’s bank balance of \$398,509 was exposed to custodial credit risk as discussed below while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of bank failure, the Academy’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits that are not FDIC insured. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

D. Investments

As of June 30, 2017, the Academy had the following investments and maturities:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturities 6 months or less</u>
Amortized cost:		
STAR Ohio	<u>\$ 34,293</u>	<u>\$ 34,293</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor’s.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type the Academy held at June 30, 2017:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
Amortized cost: STAR Ohio	\$ 34,293	100.00

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 338,361
Investments	34,293
Cash with fiscal agent	446,518
Cash on hand	<u>100</u>
Total	<u>\$ 819,272</u>
 <u>Cash and investments per statement of net position</u>	
Business-type activities	<u>\$ 819,272</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017 consisted of accounts and intergovernmental grants and entitlements. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net position follows:

Accounts	\$ 43,679
Intergovernmental:	
Title II-A	35,641
IDEA Part B	31,067
Title I	167,312
State foundation	80,757
Other programs	<u>25,214</u>
Total	<u>\$ 383,670</u>

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6 - LONG-TERM OBLIGATIONS

Changes in the Academy's long-term obligations during fiscal year 2017 were as follows:

	Balance 06/30/16	Additions	Reductions	Balance 06/30/17	Due Within One Year
Capital lease obligation payable	\$ 66,622	\$ -	\$ (29,855)	\$ 36,767	\$ 31,382
Net pension liability	7,023,327	964,052	-	7,987,379	-
Total governmental activities long-term liabilities	<u>\$ 7,089,949</u>	<u>\$ 964,052</u>	<u>\$ (29,855)</u>	<u>\$ 8,024,146</u>	<u>\$ 31,382</u>

Capital Lease Obligation: See Note 9 for details.

Net Pension Liability: See Note 13 for details.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

A summary of the Academy's capital assets at June 30, 2017, follows:

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17
<i>Capital assets, being depreciated</i>				
Equipment	\$ 181,375	\$ 158,076	\$ -	\$ 339,451
Vehicles	41,700	-	-	41,700
<i>Total capital assets, being depreciated</i>	<u>223,075</u>	<u>158,076</u>	<u>-</u>	<u>381,151</u>
<i>Less: Accumulated Depreciation</i>				
Equipment	(108,006)	(39,684)	-	(147,690)
Vehicles	(21,245)	(4,170)	-	(25,415)
<i>Total accumulated depreciation</i>	<u>(129,251)</u>	<u>(43,854)</u>	<u>-</u>	<u>(173,105)</u>
<i>Net Capital Assets</i>	<u>\$ 93,824</u>	<u>\$ 114,222</u>	<u>\$ -</u>	<u>\$ 208,046</u>

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 8 - PURCHASED SERVICES

Purchased services include the following:

Professional and technical services	\$ 275,672
Property services	229,887
Travel mileage/meeting expense	44,581
Communications	3,844
Contracted craft or trade	283,448
Tuition	2,834
Pupil transportation	52,020
Other purchased services	<u>63,149</u>
Total purchased services	<u>\$ 955,435</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the Academy entered into capitalized leases for copiers. All leases meet the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been originally capitalized in the amount of \$142,507, which represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2017 was \$109,255, leaving a current book value of \$33,252. Principal and interest payments in the 2017 fiscal year totaled \$29,855 and \$2,653, respectively.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2017:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2018	\$ 32,508
2019	<u>5,419</u>
Total future minimum lease payments	37,927
Less: amount representing interest	<u>(1,160)</u>
Present value of future minimum lease payments	<u>\$ 36,767</u>

NOTE 10 - OPERATING LEASES

The Academy entered into a lease for fiscal year 2016 with the University of Dayton to lease the third floor of the building located at 1529 Brown Street to house the Academy. During fiscal year 2017, the Academy made lease payments of \$285,743.

The following is a schedule of the future minimum rental payments required under the operating lease as of June 30, 2017:

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 10 - OPERATING LEASES (Continued)

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2018	\$ 292,893
2019	298,751
2020	304,726
2021	310,821
2022	317,037
2023	323,378
2024	<u>329,846</u>
Total	<u>\$2,177,452</u>

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy contracted with Ohio Casualty for general, automobile and excess/umbrella liability insurance. General liability carries a limit of \$1,000,000 for each occurrence and \$2,000,000 aggregate. Automobile carries a \$1,000,000 combined single limit and excess/umbrella liability carries a limit of \$3,000,000 for each occurrence. There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy's coverage in any of the past three years.

B. Workers' 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 the State calculates.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, Life and Vision Benefits

The Academy has contracted with United Healthcare for medical, life and vision benefits and Superior Dental for dental benefits to its employees.

NOTE 13 - 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.

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 *pension and postemployment benefits payable*.

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.

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 \$38,845 for fiscal year 2017. Of this amount, \$670 is reported as pension and postemployment benefits payable.

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. 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 \$223,821 for fiscal year 2017. Of this amount, \$12,396 is reported as pension and postemployment 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:

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01486120%	0.02234438%	
Proportion of the net pension liability current measurement date	<u>0.01368850%</u>	<u>0.02086907%</u>	
Change in proportionate share	<u>-0.00117270%</u>	<u>-0.00147531%</u>	
Proportionate share of the net pension liability	\$ 1,001,872	\$ 6,985,507	\$ 7,987,379
Pension expense	\$ 70,474	\$ 388,990	\$ 459,464

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 13,513	\$ 282,248	\$ 295,761
Net difference between projected and actual earnings on pension plan investments	82,641	579,986	662,627
Changes of assumptions	66,881	-	66,881
Academy contributions subsequent to the measurement date	<u>38,845</u>	<u>223,821</u>	<u>262,666</u>
Total deferred outflows of resources	<u>\$ 201,880</u>	<u>\$ 1,086,055</u>	<u>\$ 1,287,935</u>

Deferred inflows of resources			
Difference between Academy contributions and proportionate share of contributions/change in proportionate share	<u>\$ 112,454</u>	<u>\$ 410,815</u>	<u>\$ 523,269</u>
Total deferred inflows of resources	<u>\$ 112,454</u>	<u>\$ 410,815</u>	<u>\$ 523,269</u>

\$262,666 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:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	\$ (7,095)	\$ 27,784	\$ 20,689
2019	(7,152)	27,786	20,634
2020	41,074	250,341	291,415
2021	<u>23,754</u>	<u>145,508</u>	<u>169,262</u>
Total	<u>\$ 50,581</u>	<u>\$ 451,419</u>	<u>\$ 502,000</u>

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 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)

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 disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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:

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. 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.

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	\$ 1,326,416	\$ 1,001,872	\$ 730,215

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Actuarial assumptions used in the June 30, 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:

<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	1.00	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

* 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.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 9,283,171	\$ 6,985,507	\$ 5,047,292

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 net pension liability is expected to be significant.

NOTE 14 - 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.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 14 - 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 \$2,833.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$2,833, \$6,476, and \$7,108, respectively. The fiscal year 2017 amount has been reported as pension and postemployment 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's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 15 - CONTINGENCIES

A. Grants

The Academy received financial assistance from State agencies in the form of grants. The expense 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. 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, 2017.

B. State Foundation Funding

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 Ohio Department of Education (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.

The FTE adjustment resulted in a \$80,757 receivable due to the Academy from Ohio Department of Education. The amount has been reported as intergovernmental receivable on the accompanying financial statements.

In addition, the School's contracts with their Sponsor require payment based on revenues received from the State. As a result of the above noted FTE adjustment, the School owed an additional \$808 to the Dayton City School District for sponsorship fees.

NOTE 16 - SERVICE AGREEMENTS

Dayton City School District

The Academy entered into a five-year contract effective on July 1, 2012 and continuing through June 30, 2017 with the Dayton City School District (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy's compliance with applicable laws and the terms of the contract; and,
- Monitor and evaluate the academic, fiscal performance and the organization and operation of the Academy.

The Academy paid the Sponsor a 1.00% sponsorship fee, based on State foundation revenue. During fiscal year 2017, the Academy made \$31,457 in payments to the Sponsor.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 17 - JOINTLY GOVERNED ORGANIZATION

Meta Solutions - The Academy is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Valley Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. During fiscal year 2017, the Academy paid META Solutions \$17,236 for services. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

NOTE 18 - RELATED PARTIES

The Superintendent and Treasurer of Dayton Early College Academy serve in the same capacity for DECA Prep. Members of the Governing Board for Dayton Early College Academy also serve on the board for DECA Prep. During fiscal year 2017, Dayton Early College Academy served as fiscal agent for the Conner Donation grant and other grants.

NOTE 19 - SUBSEQUENT EVENT

Starting July 1, 2017, the Thomas B. Fordham Foundation became Sponsor of the Academy.

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.01368850%	0.01486120%	0.01239800%	0.01239800%
Academy's proportionate share of the net pension liability	\$ 1,001,872	\$ 847,994	\$ 627,456	\$ 737,269
Academy's covered-employee payroll	\$ 440,729	\$ 447,398	\$ 360,260	\$ 313,382
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	227.32%	189.54%	174.17%	235.26%
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.

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

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.02086907%	0.02234438%	0.02276618%	0.02276618%
Academy's proportionate share of the net pension liability	\$ 6,985,507	\$ 6,175,333	\$ 5,537,523	\$ 6,596,261
Academy's covered-employee payroll	\$ 2,162,907	\$ 2,331,264	\$ 2,326,077	\$ 2,192,038
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	322.97%	264.89%	238.06%	300.92%
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.

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

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST NINE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 38,845	\$ 61,702	\$ 58,967
Contributions in relation to the contractually required contribution	<u>(38,845)</u>	<u>(61,702)</u>	<u>(58,967)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 277,464	\$ 440,729	\$ 447,398
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%

Note: Information prior to fiscal year 2009 was unavailable.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 49,932	\$ 43,372	\$ 35,626	\$ 28,753	\$ 21,516	\$ 12,488
<u>(49,932)</u>	<u>(43,372)</u>	<u>(35,626)</u>	<u>(28,753)</u>	<u>(21,516)</u>	<u>(12,488)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 360,260	\$ 313,382	\$ 264,877	\$ 228,743	\$ 158,907	\$ 126,911
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 223,821	\$ 302,807	\$ 326,377	\$ 302,390
Contributions in relation to the contractually required contribution	<u>(223,821)</u>	<u>(302,807)</u>	<u>(326,377)</u>	<u>(302,390)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 1,598,721	\$ 2,162,907	\$ 2,331,264	\$ 2,326,077
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

2013	2012	2011	2010	2009	2008
\$ 284,965	\$ 251,014	\$ 224,543	\$ 209,775	\$ 176,191	\$ 126,966
<u>(284,965)</u>	<u>(251,014)</u>	<u>(224,543)</u>	<u>(209,775)</u>	<u>(176,191)</u>	<u>(126,966)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,192,038	\$ 1,930,877	\$ 1,727,254	\$ 1,613,654	\$ 1,355,315	\$ 976,662
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY 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-

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 disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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-

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 financials for the methods and assumptions in this calculation.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures	Non-Cash Expenditure
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
Non-Cash Assistance				
National School Lunch Program	10.555	N/A		\$ 10,301
Cash Assistance				
School Breakfast Program	10.553	N/A	\$ 91,468	
National School Lunch Program	10.555	N/A	226,470	
Total Child Nutrition Cluster			<u>317,938</u>	<u>\$ 10,301</u>
Total U.S. Department of Agriculture			<u>317,938</u>	<u>10,301</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	N/A	296,589	
Special Education Cluster (IDEA)				
Special Education Grants to States	84.027	N/A	<u>78,330</u>	
Total Special Education Cluster (IDEA)			<u>78,330</u>	
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	N/A	135,064	
Total U.S. Department of Education			<u>509,983</u>	
Total Expenditures of Federal Awards			<u>\$827,921</u>	<u>\$10,301</u>

The accompanying notes are an integral part of this schedule.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Dayton Early College Academy's (the Academy's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Academy has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the Academy to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Academy has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The Academy transferred the following amounts from 2017 to 2018 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$167,312
Special Education Grants to States	84.027	\$31,067
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	\$35,641



Dave Yost • Auditor of State

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

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Dayton Early College Academy, Montgomery County, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider a significant deficiency. We consider finding 2017-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2017-002 through 2017-004.

Academy's Response to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not subject the Academy's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469

To the Governing Board:

Report on Compliance for each Major Federal Program

We have audited the Dayton Early College Academy's (the Academy) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Dayton Early College Academy's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs.

Management's Responsibility

The Academy's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Academy's compliance for each of the Academy's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the Academy's major programs. However, our audit does not provide a legal determination of the Academy's compliance.

Basis for Qualified Opinion on Child Nutrition Cluster and Title I Grants to Local Educational Agencies

As described in Findings 2017-006 through 2017-008 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding the following:

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Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2017-006	84.010	Title I Grants to Local Educational Agencies	Equipment & Real Property Management
2017-007	84.010	Title I Grants to Local Educational Agencies	Activities Allowed or Unallowed Allowable Costs/ Cost Principles
2017-008	10.553 and 10.555	Child Nutrition Cluster: School Breakfast Program National School Lunch Program	Activities Allowed or Unallowed Allowable Costs/ Cost Principles

Compliance with these requirements is necessary, in our opinion, for the Academy to comply with the requirements applicable to these programs.

Qualified Opinion on Child Nutrition Cluster and Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster and Title I Grants to Local Educational Agencies* paragraph, the Dayton Early College Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Child Nutrition Cluster and Title I Grants to Local Educational Agencies* for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings and questioned costs as item 2017-005. Our opinion on *each* major federal program is not modified with respect to this matter.

The Academy's responses to our noncompliance findings are described in the accompanying corrective action plan. We did not subject the Academy's responses to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected or corrected. A *significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as items 2017-006 through 2017-008.

The Academy's responses to our internal control over compliance findings are described in the accompanying corrective action plan. We did not subject the Academy's responses to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2018

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses internal control reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under 2 CFR §200.516(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program (CFDA #10.553) National School Lunch Program (CFDA #10.555) Title I Grants to Local Educational Agencies (CFDA #84.010)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2017-001

SIGNIFICANT DEFICIENCY – FINANCIAL STATEMENT ERRORS

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Due to lack of controls over posting and review of the financial statements, the following errors were noted in the Academy's financial statements that were determined to be immaterial individually and in aggregate and did not require audit adjustments to the accompanying financial statements:

1. The Academy understated intergovernmental receivable by \$103,388 and understated Intermediate, state and federal grants by the same amount.
2. The Academy understated pension expense and Deferred Inflows - Pension by \$17,505 and 7,430 while Deferred Outflows - Pension was overstated by \$10,075 for State Teachers Retirement System.
3. The Academy understated Deferred Outflows - Pension by \$74,111 and overstated Deferred Inflows - Pension and Pension Expense by \$62,008 and \$136,119 respectively for School Employees Retirement System.
4. The Academy did not make any payments to its sponsor based on 2017 state foundation revenues and failed to report a payable for the sponsorship due to Dayton City Schools. This resulted in accounts payable and purchased services expenses being understated by \$21,279.
5. The Academy purchased 65" touch panels for \$79,038 during 2017. One check to the vendor for payment of equipment was voided and the second check cleared the bank. The Academy picked up both checks during its review of capital asset additions and capitalized the same asset twice. This resulted in Material and Supplies Expense being understated by \$79,038 while Capital Assets, Net and Depreciation Expense were overstated by \$75,086 and 3,952 respectively.

The Academy should establish and implement policies and procedures to verify the accuracy of the Academy's financial statements. Someone independent of the financial statement preparation process should review them for completeness and accuracy. Failure to do so could result in material misstatements, whether due to fraud or error, going undetected.

Official's Response: See Corrective Action Plan on page 64.

FINDING NUMBER 2017-002

NONCOMPLIANCE/ FINDING FOR RECOVERY FULLY REPAID DURING THE AUDIT

Ohio Admin. Code § 117-2-01(D)(4) states that when designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

Segregation of Duties (SOD) has been defined as a basic building block of sustainable risk management and internal controls for an organization. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are less manageable.

The Academy's Board approved a **Use of Credit Cards Policy** that authorized the Treasurer to hold and supervise the use of all bank credit cards and allowed Board members and administrative staff to use bank credit cards for expenses incurred in connection with Board-approved, school related expenses. This policy required prior approval of the Treasurer for school-related purchases from a vendor who does not accept purchase orders or vouchers. The policy also required the Treasurer to keep record of all credit cards use and required the users of credit cards to turn in receipts and a completed credit card expenditure form with the credit card to the Treasurer within thirty (30) business days upon the completion of any approved use. Failure to turn in receipts could result in charges being deemed unrelated or unsubstantiated and the user being obligated to make full reimbursement of credit card expenses.

Ohio Rev. Code § 149.351(A) states, in part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully. **Schedule Number 6211 of the Academy's Record Retention Schedule** requires vouchers, invoices and purchase orders to be maintained for a period of five years in paper or electronic form provided they have been audited. The term audited means the years encompassed by the records have been audited by the Auditor of State and the audit report has been released pursuant to Sec. 117.26 of the Ohio Rev. Code.

The Academy provided credit cards to every employee working at the Academy. With a hundred plus cards on hand, Cynthia Shoemaker, former Assistant to the Treasurer, was solely responsible for holding and supervising all credit card transactions. Lack of segregation of duties at the Academy provided Ms. Shoemaker with an opportunity to commit fraud. Between January 2010 and August 2016, Ms. Cynthia Shoemaker used the Academy's credit card assigned to her for personal purchases at gas stations, restaurants, an animal clinic and car rental places to name a few. The Academy discovered \$41,780 in personal charges on Ms. Cynthia Shoemaker's official card. In addition, check number 3937 was issued on March 4, 2015 to Cynthia Shoemaker for reimbursement in the amount of \$824. There was no supporting documentation available to verify proper public purpose of this expenditure. The majority of credit card statements and receipts along with vouchers were destroyed and were not available for review when fraud was discovered.

FINDING NUMBER 2017-002
(Continued)

On February 3, 2017, the Academy received a check for \$43,679 from the Academy's employee dishonesty policy as payment of claim for fraud committed by Ms. Cynthia Shoemaker. The Check included \$1,575 for two checks written to Ms. Shoemaker from DECA Prep, a legally separate entity from the Academy and \$42,104 reimbursement for the above noted fraudulent transactions. The Academy carried a \$500 deductible on its employee dishonesty policy. On January 24, 2018, Ms. Shoemaker made a no-contest plea for one count of theft in the amount greater than \$7,500 but less than \$150,000 in accordance with Ohio Rev. Code Section 2913.02(A)(2), a fourth degree felony. On February 21, 2018, Common Pleas Court of Montgomery County found Ms. Shoemaker guilty and ordered her to pay restitution in the amount of \$500 to the Academy. As of December 3, 2018, Ms. Shoemaker has made \$238 in restitution payments.

Due to the above noted fraud, our testing over credit card expenditures was expanded to include all credit card transactions from June 2013 through February 2017. During our review of the credit card transactions, we noted an additional \$1,142 charged on Ms. Shoemaker card and \$826 charged on four other credit cards that Ms. Shoemaker had custody of. These charges were determined to be unallowable. Additionally, the following two charges were also noted on other credit card accounts that were not determined to be for proper public purpose:

1. On January 1, 2014 there was a charge on Michelle Szucs' credit card for purchase of a gift certificate in amount of \$100 at Arrow Wine & Spirits
2. On February 21, 2016 there was a charge on Grace Brown's credit card for purchase of a gift card at Wal*Mart for \$53

In accordance with the forgoing facts, and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery for public money illegally expended in the following amounts are hereby issued against the following individuals, and in favor of Dayton Early College Academy's General Fund:

Name	Finding for Recovery Amount	Amount Repaid as of 12/03/2018	Amount Outstanding as of 12/03/2018
Cynthia Shoemaker	\$44,572	\$42,342	\$2,230
Michelle Szucs	100	0	100
Grace Brown	53	0	53
Total	\$44,725	\$42,342	\$2,383

On December 10, 2018, the Academy received additional \$853 from its employee dishonesty policy to pay for the unallowable expenditures uncovered during the audit. Additionally, on December 12, 2018, the Academy received a donation for \$1,530 to repay the remaining amount of this finding for recovery.

**FINDING NUMBER 2017-002
 (Continued)**

Due to numerous instances of credit card fraud, House Bill 312 (Codified as Ohio Rev. Code §3314.52) introduced credit card legislation and established two separate internal control models for credit card usage by political subdivisions. On November 30, 2018, Ohio Auditor of State published Auditor of State Bulletin 2018-003 regarding House Bill 312 amendments to regulate the usage of credit and debit cards. The Academy should review the legislation and the audit bulletin and use it as a framework for establishing and implementing a new credit card policy. As part of the revised credit card policy, the Academy should look at the number of credit cards outstanding, authorized users and allowable expenditures. Additionally, the Academy should establish and implement procedures to verify that all supporting documentation related to credit card transactions is properly maintained. Failure to retain these required public records may result in an incomplete audit trail, create potential problems for future management decisions, and may result in findings for recovery in future audits. The Academy should also perform an evaluation of its operations to see if incompatibilities exist in key processes. The Academy should evaluate each incompatibility and address them by either splitting up the incompatible tasks or establishing and implementing compensating controls to address the key risks. Failure to do so could result in fraud and errors going undetected in a timely manner.

Official's Response: See Corrective Action Plan on page 64.

FINDING NUMBER 2017-003

NONCOMPLIANCE

See (federal) finding # 2017-005 below; *Government Auditing Standards* also requires us to report this finding.

FINDING NUMBER 2017-004

NONCOMPLIANCE/ FINDING FOR RECOVERY

See (federal) finding # 2017-008 below; *Government Auditing Standards* also requires us to report this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2017-005		
CFDA Title and Number	Child Nutrition Cluster: School Breakfast Program (CFDA #10.553) National School Lunch Program (CFDA #10.555)		
Federal Award Identification Number / Year	2017		
Federal Agency	United States Department of Agriculture		
Compliance Requirement	Other		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	N/A

FINDING NUMBER 2017-005
(Continued)

NONCOMPLIANCE

2 C.F.R. § 400.1 gives regulatory effect to the United States Department of Agriculture for **2 C.F.R. § 200.510(b)** which states that the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

1. List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
2. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
4. Include the total amount provided to subrecipients from each Federal program.
5. For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
6. Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs.

The Academy did not accurately prepare the Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year 2017. The Academy understated expenditures for the following programs within the Child Nutrition Cluster:

School Breakfast Program (CFDA #10.553)	\$64,313
National School Lunch Program (CFDA #10.555)	\$175,752
National School Lunch Program - Non-cash (CFDA #10.555)	10,301
Total Child Nutrition Cluster	<u>\$250,366</u>

The total misstatement was 42.59% of the federal expenditures initially reported by the School and correction of the error resulted in the Academy becoming subject to a single audit as total federal expenditures increased from \$587,855 to \$838,221.

To reduce the risk of inaccurate reporting of federal expenditures and noncompliance with 2 C.F.R. § 200.510(b), due care should be taken in the preparation of the Schedule of Expenditures of Federal Awards. The SEFA should be reviewed after preparation and agreed to the underlying cash reports of the Academy for accuracy. Failure to do so could result in material misstatements on the SEFA going undetected.

Official's Response: See Corrective Action Plan on page 64.

Finding Number	2017-006		
CFDA Title and Number	Title I Grants to Local Educational Agencies (CFDA #84.010)		
Federal Award Identification Number / Year	2017		
Federal Agency	United States Department of Education		
Compliance Requirement	Equipment & Real Property Management		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	N/A

NONCOMPLIANCE AND MATERIAL WEAKNESS

2 C.F.R. § 3474.1 gives regulatory effect to the Department of Education for **2 C.F.R. § 200.313(d)** which states that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
4. Adequate maintenance procedures must be developed to keep the property in good condition.
5. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

During 2017, the Academy purchased 65" touch panels from the Title I Grants to Local Educational Agencies fund. The Academy canceled one check written to the vendor for the touch panel and reissued a second check which cleared the bank for payment of the equipment. The Academy updated its capital asset listing based on checks written and recorded the same touch panels twice. Additionally, there was no indication that the Academy performed a physical inventory of its assets at least once every two years.

The Academy should establish and implement policies and procedures to properly capitalize, track, inventory and dispose of equipment bought with federal funds in accordance with **2 C.F.R. § 200.313(d)**. Failure to do so could result in the Academy tracking incorrect number/amount of capital assets and any misuse going undetected in a timely manner. Physical inventories should be performed regularly to verify that assets held per the capital asset listing actually exist. This will help detect errors, fraud, theft or omissions.

Official's Response: See Corrective Action Plan on page 64.

Finding Number	2017-007		
CFDA Title and Number	Title I Grants to Local Educational Agencies (CFDA #84.010)		
Federal Award Identification Number / Year	2016		
Federal Agency	United States Department of Education		
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/ Cost Principles		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	N/A

NONCOMPLIANCE AND MATERIAL WEAKNESS AND QUESTIONED COST

2 C.F.R. § 3474.1 gives regulatory effect to the Department of Education for **2 C.F.R. § 200.403** which requires cost to be (a) necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles; and, (g) be adequately documented.

On December 30, 2016, the Academy moved \$67,524 from the Fiscal Year 2016 Title I Grants to Local Educational Agencies Fund to the General Fund and reported the transaction as return of advance. However, there was no indication of the General Fund advancing money to the Title I grant during fiscal year 2016.

In accordance with the foregoing facts and pursuant to 2 C.F.R. § 200.84, a federal questioned cost in the amount of \$67,524 is hereby issued.

To avoid potential loss, or decrease of federal funding, the Academy should establish and implement policies and procedures to verify that all expenditures made out of federal funds are necessary, reasonable and fully supported by underlying documentation. Failure to do so could result in unallowable expenditures being paid out of the grant funds and potential questioned costs in future audits.

Official's Response: See Corrective Action Plan on page 64.

Finding Number	2017-008		
CFDA Title and Number	Child Nutrition Cluster: School Breakfast Program (CFDA #10.553) National School Lunch Program (CFDA #10.555)		
Federal Award Identification Number / Year	2017		
Federal Agency	United States Department of Agriculture		
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/ Cost Principles		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	N/A

NONCOMPLIANCE, MATERIAL WEAKNESS, QUESTIONED COST AND FINDING FOR RECOVERY REPAID DURING THE AUDIT

2 C.F.R. § 400.1 gives regulatory effect to the United States Department of Agriculture for **2 C.F.R. § 200.430(i)(1)** which provides in part that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- i. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- ii. Be incorporated into the official records of the non-Federal entity;
- iii. Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
- iv. Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- v. Comply with the established accounting policies and practices of the non-Federal entity; and
- vi. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.
- vii. Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards.

Ohio Department of Education issued Grants Management Guidance 2014-002 on March 17, 2014 to address new Uniform Guidance requirements.

During fiscal year 2017, the Academy charged \$18,000 in salaries and \$2,455 in benefits to Child Nutrition Cluster Grants. However, there was no documentation available to support that the employee charging to the federal grant funds worked on the grant.

FINDING NUMBER 2017-008
(Continued)

Additionally, **2 C.F.R. § 200.403** states that except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

Additionally, **2 C.F.R. § 200.404** states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

For the period July 1, 2016 through February 28, 2017, Dayton Early College Academy managed the food service program for DECA Prep. Meals served at DECA Prep were reported by the Academy and the Ohio Department of Education reimbursed the Academy for meal served at DECA Prep. On June 30, 2017, the Academy transferred \$241,552 to reimburse DECA Prep for food service costs incurred by DECA Prep during the period when the Academy managed its food service operations. The actual food service expenditures at DECA Prep from July 1, 2016 through February 28, 2017 totaled \$204,107. The Academy over-reimbursed DECA Prep \$37,445.

In accordance with the foregoing facts and pursuant to 2 C.F.R. § 200.84, a federal questioned cost in the amount of \$57,900 (\$18,000 + \$2,455 + \$37,445) is hereby issued.

Additionally, in accordance with the forgoing facts, and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery for public money illegally expended in the amount of \$37,445 is hereby issued against DECA Prep, and in favor of Dayton Early College Academy's Food Service Fund.

FINDING NUMBER 2017-008
(Continued)

On December 20, 2018, DECA Prep transferred \$37,445 to the Academy's checking account to repay the finding for recovery.

To avoid potential loss, or decrease of federal funding, the Academy should establish and implement policies and procedures to verify that each employee working solely on a federal program completes semi-annual certifications on a timely basis. The semi-annual certifications should be an "after the fact" representation of the hours worked. Therefore, these should be completed in a reasonably short time after the end of the period the certification is meant to cover. All certifications should include full disclosure of the facts and should include credible signatures. Employees working on multiple activities should complete time and effort logs documenting their time spent on each activity. Additionally, the Academy should establish and implement policies and procedures to verify that only employees working on food service activities are charging to the grant. Payments made to vendors should be supported by underlying documents and made in accordance with the specific grant requirements and cost principles outlined in 2 C.F.R. Section 200. Failure to do so could result in loss of future grant funding and additional questioned cost in future years.

Official's Response: See Corrective Action Plan on page 64.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Finding for Recovery Repaid During the Audit	Corrective Action Taken and Finding is Fully Corrected	The Academy implemented a document trail and has implemented checks and balances to ensure proper processing and filing of fiscal documentation pertaining to reimbursements.
2016-002	Net Pension Liability Calculation	Partially Corrected	The Fiscal Team is working closely with compilers to ensure proper Net pension Liability inflow and outflow calculations are in accordance with GAAP standards. Finding has been repeated as finding number 2017-001

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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	Fiscal Team will work closely with compilers to ensure proper and more accurate financial reporting.	Ongoing	Treasurer
2017-002	The Academy implemented a new credit card policy to ensure proper processing and filing of fiscal documentation. The Treasurer is in receipt of all employee credit cards at this time. The Admin Assistant is the only authorized user of credit cards now. They must sign out the credit card from the Treasurer for purchases such as PD events and sign it back in to the Treasurer on the same day.	Completed	Treasurer
2017-003	Treasurer will work with appropriate school staff and consultants to ensure proper and accurate federal schedule reporting and sending. Fiscal Team will work closely with compilers to ensure proper and more accurate financial reporting.	Ongoing	Treasurer
2017-004	Treasurer will work with appropriate school staff, consultants, and compilers to ensure proper and accurate federal schedule reporting and sending.	Ongoing	Treasurer
2017-005	Treasurer will work with appropriate school staff and consultants to ensure proper and accurate federal schedule reporting and sending. Fiscal Team will work closely with compilers to ensure proper and more accurate financial reporting.	Ongoing	Treasurer
2017-006	Fiscal Team will work with appropriate school staff, consultants, and compilers to ensure proper and accurate equipment management to be entered into the Inventory System.	Ongoing	Treasurer
2017-007	Treasurer will work with appropriate school staff and consultants to ensure proper and accurate federal schedule reporting and sending.	Ongoing	Treasurer
2017-008	Treasurer will work with appropriate school staff, consultants, and compilers to ensure proper and accurate federal schedule reporting and sending.	Ongoing	Treasurer

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OHIO AUDITOR OF STATE KEITH FABER



DAYTON EARLY COLLEGE ACADEMY, INC.

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 22, 2019**