

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE KEITH FABER



Board of Directors
Educational Academy for Boys and Girls
35 Midland Ave
Columbus, Ohio 43223

We have reviewed the *Independent Auditor's Report* of the Educational Academy for Boys and Girls, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

March 13, 2019

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EDUCATIONAL ACADEMY FOR BOYS AND GIRLS

FRANKLIN COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor's Report 1

Management's Discussion and Analysis..... 3

Basic Financial Statements:

Statement of Net Position 8

Statement of Revenues, Expenses, and Changes in Net Position..... 9

Statement of Cash Flows 10

Notes to the Basic Financial Statements 11

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Academy's Proportionate Share of the Net Pension Liability..... 36

Schedule of the Academy's Contributions - Pension 37

Schedule of the Academy's Proportionate Share of the Net OPEB Liability..... 38

Schedule of the Academy's Contributions - OPEB 39

Notes to Required Supplementary Information 40

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
And Other Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards 42

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December 24, 2018

To the Board of Directors
Educational Academy for Boys and Girls
Franklin County, Ohio
35 Midland Avenue
Columbus, OH 43223

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Educational Academy for Boys and Girls, Franklin County, Ohio, (the "Academy") as of and for the year ended June 30, 2018, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, the Academy restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, *Schedule of the Academy's Contributions - Pension*, *Schedule of the Academy's Proportionate Share of the Net OPEB Liability*, and the *Schedule of the Academy's Contributions - OPEB* on pages 3-7, 36, 37, 38, and 39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2018, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's 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.

Rea & Associates, Inc.

Dublin, Ohio

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The discussion and analysis of Educational Academy for Boys and Girls (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented and is presented in the MD&A.

Financial Highlights

Key financial highlights for the Academy during the fiscal year ended June 30, 2018, are as follows:

- Total net position increased by \$588,671.
- Total assets and deferred outflows of resources increased by \$380,416 from the prior year.
- Total liabilities and deferred inflows of resources decreased by \$208,255 from the prior year.
- The Academy's operating income was \$374,449.
- Net Pension and Other Post employment benefit deferred outflows combined for an increase of \$472,383 while the Net Pension and Other Post employment benefit liability and deferred inflows combined for a decrease of \$127,934. Both increases were the result of changes in the net pension/OPEB liabilities and related accruals.
- The School implemented GASB 75, which reduced beginning net position as previously reported by \$432,382.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the required supplementary information and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Position

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

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

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

Table 1 provides a summary of the Academy's net position for June 30, 2018, compared to those reported for fiscal year 2017.

(Table 1)
Net Position

	<u>2018</u>	<u>Restated 2017</u>
Assets		
Current Assets	\$ 49,914	\$ 149,530
Capital Assets, Net	24,093	16,444
Total Assets	<u>74,007</u>	<u>165,974</u>
Deferred Outflows of Resources		
Pension/OPEB	1,065,443	593,060
Total Deferred Outflows of Resources	<u>1,065,443</u>	<u>593,060</u>
Liabilities		
Current Liabilities	52,654	132,975
Long-Term Liabilities	2,318,235	2,521,203
Total Liabilities	<u>2,370,889</u>	<u>2,654,178</u>
Deferred Inflows of Resources		
Pension/OPEB	163,957	88,923
Total Deferred Inflows of Resources	<u>163,957</u>	<u>88,923</u>
Net Position		
Investment in Capital Assets	24,093	16,444
Restricted		
Unrestricted	(1,419,489)	(2,000,511)
Total Net Position	<u>\$ (1,395,396)</u>	<u>\$ (1,984,067)</u>

Current assets decreased \$99,616. This decrease was primarily due to a decrease in both cash of \$80,847 and accounts receivables of \$20,731. Current liabilities decreased by \$80,321 due to a decrease in amounts owed to Educational Solutions Co. under the management agreement described in Note 10. Changes in deferred inflows/outflows and long-term liabilities are a result of changes in net pension/OPEB liability and related accruals.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

Table 2 shows the changes in net position ended June 30, 2018 as compared to changes reported for fiscal year 2017.

(Table 2)
Change in Net Position

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Foundation	\$ 819,161	\$ 1,095,794
Casino Aid	5,137	6,152
Non-Operating Revenues		
Federal and State	214,090	356,428
Miscellaneous	32	2,087
Total Revenues	<u>1,038,420</u>	<u>1,460,461</u>
Operating Expenses		
Purchased Services	439,200	1,555,029
Materials and Supplies	-	4,382
Depreciaton	10,549	7,862
Total Expenses	<u>449,749</u>	<u>1,567,273</u>
Change in Net Position	<u>\$ 588,671</u>	<u>\$ (106,812)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$1,647 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$38,722. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	\$ 449,748
Negative OPEB Expense under GASB 75	38,722
2018 Contractually Required Contribution	3,534
Adjusted 2018 Program Expenses	<u>492,004</u>
Total 2017 Program Expenses under GASB 45	1,567,273
Decrease in Program Expenses not Related to OPEB	<u>\$ (1,075,269)</u>

Foundation revenues and federal and state grants decreased due to change in enrollment in 2018. Purchased services decreased as a result of accruals related to GASB 68 and 75 in addition to amounts paid to Educational Solutions Co. under management agreement described in Note 10 are also linked to enrollment.

Capital Assets

At the end of fiscal year 2018, the Academy had \$24,093 invested in capital assets. See Note 5 of the basic financial statements for additional details.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

Net Pension Liability

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, the Academy adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Academy's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Academy's statements include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$1,551,685 to a deficit of \$1,984,067.

Debt

At June 30, 2018, the Academy had no outstanding debt.

Currently Known Facts

There are no currently known facts that would be expected to have a significant impact on the financial condition of the school in the next year.

The Academy is sponsored by North Central Ohio Educational Service Center (NCOESC). The term of the contract is from July 1, 2013 through June 30, 2018, with automatic one year renewal terms. NCOESC will be paid three percent (3%) of the total state foundation payment received by the School.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Educational Academy for Boys and Girls and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Educational Academy for Boys and Girls, 1500 West Third Avenue, Suite 125, Columbus, Ohio 43212.

Educational Academy for Boys and Girls
Franklin County, Ohio
Statement of Net Position
June 30, 2018

Assets

Cash	\$ 14,420
Accounts Receivable	5,123
Intergovernmental Receivable	<u>30,371</u>
Total Current Assets	<u>49,914</u>

Non-current Assets

Capital Assets, Net	<u>24,093</u>
Total Assets	<u>74,007</u>

Deferred Outflows of Resources

Pension	968,491
OPEB	<u>96,952</u>
Total Deferred Outflows of Resources	<u>1,065,443</u>

Current Liabilities

Accounts Payable	22,283
Grants Payable	<u>30,371</u>
	52,654

Long-Term Liabilities

Net Pension Liability	1,879,770
Net OPEB Liability	<u>438,465</u>
Total Long Term Liabilities	<u>2,318,235</u>
Total Liabilities	<u>2,370,889</u>

DEFERRED INFLOWS OF RESOURCES

Pension	115,344
OPEB	<u>48,613</u>
Total Deferred Inflows of Resources	<u>163,957</u>

NET POSITION

Investment in Capital Assets	24,093
Unrestricted	<u>(1,419,489)</u>
Total Net Position	<u>\$ (1,395,396)</u>

See accompanying notes to the basic financial statements

Educational Academy for Boys and Girls
Franklin County, Ohio
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended June 30, 2018

OPERATING REVENUES:

Foundation Payments	\$	819,161
Casino		5,137
Total Operating Revenues		824,298

OPERATING EXPENSES:

Purchased Services		439,200
Depreciation		10,549
Total Operating Expenses		449,749

Operating Income		374,549
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NON-OPERATING REVENUES:

Federal Grant Revenue		212,114
State Grant Revenue		1,976
Other Revenue		32
Total Non-Operating Revenues		214,122

Change in Net Position		588,671
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Net Position, Beginning of Year, Restated		(1,984,067)
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Net Position, End of Year		\$ (1,395,396)
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See accompanying notes to the basic financial statements

Educational Academy for Boys and Girls
Franklin County, Ohio
Statement of Cash Flows
June 30, 2018

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 844,929
Cash Payments to Suppliers for Goods and Services	<u>(1,119,838)</u>
Net Cash Used for Operating Activities	<u>(274,909)</u>

Cash Flows from Noncapital Financing Activities

Federal and State Grants	212,228
Other Revenue	<u>32</u>
Net Cash Provided by Noncapital Financing Activities	<u>212,260</u>

Cash Flows from Capital and Related Financing Activities

Cash Payments for Capital Acquisitions	<u>(18,198)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(18,198)</u>

Net Decrease in Cash	(80,847)
Cash, Beginning of Year	<u>95,267</u>
Cash, End of Year	<u><u>\$ 14,420</u></u>

Reconciliation of Operating Income to Net Cash Used for Operating Activities

Operating Income	\$ 374,549
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	10,549
Changes in Assets and Liabilities, Deferred Inflow/Outflow of Resources:	
(Increase) Decrease in Accounts Receivable	20,631
Increase (Decrease) in Accounts Payable	(82,184)
Increase (Decrease) in Grants Payable	1,863
Increase(Decrease) in Deferred Outflows	(472,383)
Increase (Decrease) in Deferred Inflows	75,034
Increase (Decrease) in Net Pension Liability	(207,404)
Increase (Decrease) in Net OPEB Liability	<u>4,436</u>
Total Adjustments	<u>(649,458)</u>
Net Cash Used for Operating Activities	<u><u>\$ (274,909)</u></u>

See accompanying notes to the basic financial statements

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Educational Academy for Boys and Girls (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the St. Aloysius Orphanage during the fiscal year ended June 30, 2007, and renews annually every June 30th unless cancelled by either party with 90 days notice. On or about June 6, 2013, St. Aloysius, with the Governing Authority's consent, assigned all of its rights and duties under said community school sponsorship contract to North Central Ohio Educational Service Center (Sponsor).

On July 1, 2013, on behalf of the Academy, Educational Solutions Co. (ESC) entered into a 5-year contract with the Sponsor. The contract was renewed through June 30, 2020.

The Academy is required to operate under the direction of a Governing Board consisting of at least five members. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

Effective July 1, 2012, the Academy and Educational Solutions Co.(ESC) entered into a full-performance management contract. Under this contract, ESC is obligated to manage and operate the Academy. ESC is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization. In addition to the Academy, ESC currently supports two other Ohio community schools. Each of its supported schools are members of ESC, as such term is defined by Ohio Revised Code Chapter 1702. As members of ESC, the schools, under ESC's Code of Regulations, elect a majority of the Board of Directors of ESC. As a result of this relationship, ESC is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and ESC is a Type I supporting organization. As a result of this relationship, ESC is responsive to the needs and demands of its supported schools and is an integral part of their operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources is defined as net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

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

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

C. Budgetary Process

Community Schools are statutorily required to adopt a budget by ORC 3314.032(c). However, unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the Academy and its Sponsor does not require the school to follow the provisions of ORC 5705; therefore no budgetary information is presented in the basic financial statements.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds. Cash is defined as demand deposits, savings, and investments with original maturity less than 90 days.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy does not possess any infrastructure. The Academy capitalizes all capital assets, regardless of cost. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Life</u>
Buildings	40 years
Furniture and Equipment	5 years
Leasehold Improvements	15 years

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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F. Estimates

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

G. Intergovernmental Revenues

The Academy is a participant in the State Foundation and Casino Programs. The Foundation and Casino funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation and Casino Programs totaled \$824,298 during fiscal year 2018. Revenues associated with specific education grants from the state and federal governments totaled \$214,090 during fiscal year 2018.

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the Academy's primary mission, including purchased services, materials and supplies, and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the Academy by other instructional entities for use of the Academy's instructional staff comprise the non-operating revenues of the Academy. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

I. Accounts/Grants Payable

Obligations incurred but unpaid prior to June 30, 2018, are reported as accounts and grants payable in the accompanying financial statements. Payables totaled \$52,654 at June 30, 2018.

J. Deferred Outflow / Deferred Inflows of Resources

In addition to assets, the statement of financial position report a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to pension and OPEB are explained in Notes 6 and 7.

In addition to liabilities, the statement of financial position 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. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are explained in Notes 6 and 7.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Pensions and Other Postemployment Benefits (OPEB)

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

L. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

M. Economic Dependency

The Academy receives 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

3. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2018, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

3. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (Continued)

The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the Academy's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

Net Position, June 30, 2017	\$ (1,551,685)
Adjustments:	
Net OPEB Liability	(434,029)
Deferred Outflow-Payments Subsequent to Measurement Date	1,647
Restated Net Position, July 1, 2017	\$ (1,984,067)

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

4. DEPOSITS

At June 30, 2018, the carrying amount of the Academy's deposits was \$14,420 and the bank balance was \$14,420. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, the Academy's bank balance was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2018</u>
Capital Assets:				
Furniture and Equipment	\$ 131,190	\$ 18,198	\$ -	\$ 149,388
Total Assets	<u>131,190</u>	<u>18,198</u>	<u>-</u>	<u>149,388</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(114,746)	(10,549)	-	(125,295)
Accumulated Depreciation	<u>(114,746)</u>	<u>(10,549)</u>	<u>-</u>	<u>(125,295)</u>
Capital Assets, Net	<u>\$ 16,444</u>	<u>\$ 7,649</u>	<u>\$ -</u>	<u>\$ 24,093</u>

6. DEFINED BENEFIT PENSION PLANS

The Academy has contracted with Educational Solutions to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting retirement contributions to each of the systems noted below. See Note 10.

Net Pension Liability

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

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

Ohio Revised Code limits the Academy 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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 accounts payable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – the Academy non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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 before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The Academy contractually required contribution to SERS was \$34,167 for fiscal year 2018

Plan Description - State Teachers Retirement System (STRS)

Plan Description – the 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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 to 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, 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

The Academy contractually required contribution to STRS was \$76,246 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00832840%	0.00581837%	
Prior Measurement Date	0.00690410%	0.00472577%	
Change in Proportionate Share	0.00142430%	0.00109260%	
Proportionate Share of the Net			
Pension Liability	\$ 497,604	\$ 1,382,166	\$ 1,879,770
Pension Expense	\$ (21,271)	\$ (426,377)	\$ (447,648)

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions, and changes in the Academy proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2018 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	\$ 21,416	\$ 53,373	\$ 74,789
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	0	0
Changes of Assumptions	25,732	302,295	328,027
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	71,125	384,137	455,262
Academy Contributions Subsequent to the Measurement Date	34,167	76,246	110,413
Total Deferred Outflows of Resources	<u>\$ 152,440</u>	<u>\$ 816,051</u>	<u>\$ 968,491</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 11,140	\$ 11,140
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,362	45,611	47,973
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	56,231	0	56,231
Total Deferred Inflows of Resources	<u>\$ 58,593</u>	<u>\$ 56,751</u>	<u>\$ 115,344</u>

\$110,413 reported as deferred outflows of resources related to pension resulting from the Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ 16,563	\$ 169,517	\$ 186,080
2020	29,867	231,560	261,427
2021	24,851	193,858	218,709
2022	(11,601)	88,119	76,518
	\$ 59,680	\$ 683,054	\$ 742,734

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 terminations). 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, 2017, 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	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic 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 Stocks	22.50	4.75
Non-US Stocks	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 earnings 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 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 Academy proportionate share of 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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's Proportionate Share of the Net Pension Liability	\$ 690,544	\$ 497,604	\$ 335,976

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016.

Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the Academy Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the Academy proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's Proportionate Share of the Net Pension Liability	\$ 1,981,288	\$ 1,382,166	\$ 877,496

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

7. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)

The net OPEB liability represents the Academy proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)
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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the Academy surcharge obligation was \$2,210.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy contractually required contribution to SERS was \$3,534 for fiscal year 2018. Of this amount \$2,210 is reported as accounts payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy proportion of the net OPEB liability was based on the Academy share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.00787910%	0.00581837%	
Prior Measurement Date	0.00636035%	0.00472577%	
Change in Proportionate Share	<u>0.00151875%</u>	<u>0.00109260%</u>	
Proportionate Share of the Net OPEB Liability	\$ 211,454	\$ 227,011	\$ 438,465
OPEB Expense	\$ 22,203	\$ (60,925)	\$ (38,722)

At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 13,105	\$ 13,105
Changes in Proportionate Share and Differences between Academy Contributions and Proportionate Share of Contributions	30,228	50,085	80,313
Academy Contributions Subsequent to the Measurement Date	3,534	0	3,534
Total Deferred Outflows of Resources	<u>\$ 33,762</u>	<u>\$ 63,190</u>	<u>\$ 96,952</u>
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 558	\$ 9,703	\$ 10,261
Changes of Assumptions	20,066	18,286	38,352
Total Deferred Inflows of Resources	<u>\$ 20,624</u>	<u>\$ 27,989</u>	<u>\$ 48,613</u>

\$3,534 reported as deferred outflows of resources related to OPEB resulting from the Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ 3,542	\$ 5,058	\$ 8,600
2020	3,542	5,058	8,600
2021	2,658	5,058	7,716
2022	(138)	5,059	4,921
2023	0	7,484	7,484
Thereafter	0	7,484	7,484
	<u>\$ 9,604</u>	<u>\$ 35,201</u>	<u>\$ 44,805</u>

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)
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The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)

Sensitivity of the Academy Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower 6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's Proportionate Share of the Net OPEB Liability	\$ 255,358	\$ 211,454	\$ 176,671

	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	\$ 171,579	\$ 211,454	\$ 264,230

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)
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Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. DEFINED BENEFIT OPEB PLANS (Continued)

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the Academy Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's Proportionate Share of the Net OPEB Liability	\$ 304,759	\$ 227,011	\$ 165,565
	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	\$ 157,718	\$ 227,011	\$ 318,210

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

8. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2018, the School contracted with Hanover Insurance Company for its insurance coverage as follows:

General Liability per Occurrence	\$1,000,000
General Liability Aggregate	\$2,000,000

Settlement amounts did not exceed coverage amounts in the last 3 years nor is there a reduction in coverage from the prior year.

B. Workers' Compensation

ESC pays the State Worker's Compensation System a premium for employee injury coverage (Note 10).

9. PURCHASED SERVICES

During the fiscal year ended June 30, 2018, purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	<u>\$439,200</u>
Total Purchased Services	<u><u>\$439,200</u></u>

Purchased Services expense has been decreased by \$600,317 adjusted with the net impact of the accruals related to Pension and OPEB.

10. MANAGEMENT AGREEMENT

Effective July 1, 2012, the Academy and ESC. entered into a full-performance management contract. Under this contract, ESC is obligated to manage and operate the Academy. ESC. is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization. In addition to the Academy, ESC currently supports two other Ohio community schools. Each of its supported schools are members of ESC, as such term is defined by Ohio Revised Code Chapter 1702. As members of ESC, the schools, under ESC's Code of Regulations, elect a majority of the Board of Directors of ESC. As a result of this relationship, ESC is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and ESC is a Type I supporting organization. As a result of this relationship, ESC is responsive to the needs and demands of its supported schools and is an integral part of their operations. Additionally, ESC will assume the obligations of the Academy under the existing contract.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

11. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2018, ESC incurred the following expenses on behalf of the School:

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
<i>Direct expenses:</i>					
Salaries & wages (100 object codes)	\$ 367,178	\$ 42,674	\$ 168,547	\$ -	\$ 578,399
Employees' benefits (200 object codes)	117,434	-	24,772	-	142,206
Professional & technical services (410 object codes)	48,565	-	179,245	1,329	229,139
Property services (420 object codes)	675	-	122,050	-	122,725
Utilities (450 object codes)	-	-	29,812	-	29,812
Contracted craft or trade services (460 object codes)	-	-	-	80,034	80,034
Transportation (480 object codes)	-	-	1,790	-	1,790
Other purchased services (490 object codes)	-	-	2,250	-	2,250
Supplies (500 object codes)	21,308	-	3,979	127	25,414
Equipment (640, 644, and 645 object codes)	18,198	-	-	-	18,198
Dues and fees (840 object code)	-	-	9,039	-	9,039
Insurance (850 object code)	-	-	4,992	-	4,992
Overhead	24,010	-	221,631	1,559	247,200
Total expenses	\$ 597,368	\$ 42,674	\$ 768,107	\$ 83,049	\$ 1,491,198

ESC charges expenses benefiting more than one school (i.e., overhead) pro rata based on the percentage of FTE students per school in relation to all the schools that ESC manages.

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2018, if applicable, cannot be determined at this time.

B. State Funding

School 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.

**EDUCATIONAL ACADEMY FOR BOYS AND GIRLS
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

12. CONTINGENCIES (Continued)

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 did not perform such a review on the School for fiscal year 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

In addition, the School's contracts with their Sponsor and Management Company that requires payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

Educational Academy for Boys and Girls
Franklin County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)					
Academy's Proportion of the Net Pension Liability	0.00832840%	0.00690410%	0.00903520%	0.00853100%	0.00853100%
Academy's Proportionate Share of the Net Pension Liability	\$ 497,604	\$ 505,316	\$ 515,557	\$ 431,749	\$ 507,311
Academy's Covered Payroll	\$ 268,786	\$ 229,114	\$ 340,918	\$ 247,908	\$ 179,147
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	185.13%	220.55%	151.23%	174.16%	283.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)					
Academy's Proportion of the Net Pension Liability	0.00581837%	0.00472577%	0.00396845%	0.00393775%	0.00393775%
Academy's Proportionate Share of the Net Pension Liability	\$ 1,382,166	\$ 1,581,858	\$ 1,096,764	\$ 957,797	\$ 1,140,922
Academy's Covered Payroll	\$ 639,657	\$ 447,686	\$ 434,957	\$ 445,492	\$ 260,531
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	353.34%	252.15%	215.00%	437.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Educational Academy for Boys and Girls
Franklin County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - Pension
Last Seven Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
School Employees Retirement System (SERS)							
Contractually Required Contribution	\$ 34,167	\$ 37,630	\$ 32,076	\$ 44,933	\$ 34,360	\$ 24,794	\$ 17,522
Contributions in Relation to the Contractually Required Contribution	<u>(34,167)</u>	<u>(37,630)</u>	<u>(32,076)</u>	<u>(44,933)</u>	<u>(34,360)</u>	<u>(24,794)</u>	<u>(17,522)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 253,089	\$ 268,786	\$ 229,114	\$ 340,918	\$ 247,908	\$ 179,147	\$ 130,275
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%
State Teachers Retirement System (STRS)							
Contractually Required Contribution	\$ 76,246	\$ 89,552	\$ 62,676	\$ 60,894	\$ 57,914	\$ 33,869	\$ 29,729
Contributions in Relation to the Contractually Required Contribution	<u>(76,246)</u>	<u>(89,552)</u>	<u>(62,676)</u>	<u>(60,894)</u>	<u>(57,914)</u>	<u>(33,869)</u>	<u>(29,729)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 544,614	\$ 639,657	\$ 447,686	\$ 434,957	\$ 445,492	\$ 260,531	\$ 228,685
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%

(1) Information prior to 2012 is not available

See accompanying notes to the required supplementary information.

Educational Academy for Boys and Girls
Franklin County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>		
Academy's Proportion of the Net OPEB Liability	0.00787910%	0.00636035%
Academy's Proportionate Share of the Net OPEB Liability	\$ 211,454	\$ 181,294
Academy's Covered Payroll	\$ 268,786	\$ 229,114
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	78.67%	79.13%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>		
Academy's Proportion of the Net OPEB Liability	0.00581837%	0.00472577%
Academy's Proportionate Share of the Net OPEB Liability	\$ 227,011	\$ 252,735
Academy's Covered Payroll	\$ 639,657	\$ 447,686
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	56.45%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Educational Academy for Boys and Girls
Franklin County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - OPEB
Last Seven Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
School Employees Retirement System (SERS)							
Contractually Required Contribution (2)	\$ 3,534	\$ 1,647	\$ 489	\$ 2,799	\$ 347	\$ 2,257	\$ 1,343
Contributions in Relation to the Contractually Required Contribution	<u>(3,534)</u>	<u>(1,647)</u>	<u>(489)</u>	<u>(2,799)</u>	<u>(347)</u>	<u>(2,257)</u>	<u>(1,343)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 253,089	\$ 268,786	\$ 229,114	\$ 340,918	\$ 247,908	\$ 179,147	\$ 130,275
OPEB Contributions as a Percentage of Covered Payroll (2)	1.40%	0.61%	0.21%	0.82%	0.14%	1.26%	1.03%
State Teachers Retirement System (STRS)							
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,455	\$ 2,605	\$ 2,287
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,455)</u>	<u>(2,605)</u>	<u>(2,287)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 544,614	\$ 639,657	\$ 447,686	\$ 434,957	\$ 445,492	\$ 260,531	\$ 228,685
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%

(1) Information prior to 2012 is not available

See accompanying notes to the required supplementary information.

**Educational Academy for Boys and Girls
Franklin County, Ohio**
*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018*

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- 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 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
 - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

**Educational Academy for Boys and Girls
Franklin County, Ohio**
*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018*

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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December 24, 2018

To the Board of Directors
Educational Academy for Boys and Girls
Franklin County, Ohio
35 Midland Avenue
Columbus, OH 43223

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Educational Academy for Boys and Girls, Franklin County, Ohio (the "Academy") as of and for the year ended June 30, 2018, 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 24, 2018, in which we noted that the School restated the net position balance to account for the implementation of GASB Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

OHIO AUDITOR OF STATE KEITH FABER



EDUCATIONAL ACADEMY FOR BOYS AND GIRLS

FRANKLIN 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
MARCH 26, 2019**