



OHIO AUDITOR OF STATE
KEITH FABER



**MIAMI VALLEY ACADEMIES
MONTGOMERY COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
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 - Last Five Fiscal Years	35
Schedule of the Academy's Contributions – Pension – Last Ten Fiscal Years	36
Schedule of the Academy's Proportionate Share of the Net OPEB Liability - Last Two Fiscal Years	39
Schedule of the Academy's Contributions – OPEB – Last Ten Fiscal Years	40
Notes to the Required Supplementary Information	42
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Miami Valley Academies
Montgomery County
5656 North Springboro Pike
Moraine, Ohio 45449

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Miami Valley Academies, Montgomery 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Additionally, as discussed in Note 15 to the financial statements, the Academy has a net position deficiency. Note 15 also describes management's evaluation of the events and conditions and their plans to mitigate these matters. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2019, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

August 21, 2019

Miami Valley Academies
Montgomery County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of the Miami Valley Academies' (the Academy) financial performance provides an overall review of the Academy's 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 financial statements and the notes to the 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 June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net position increased \$574,922, which represents an increase of 22.5 percent from 2017.
- Total assets decreased \$47,427, which represents a 40.8 percent decrease from 2017.
- Liabilities decreased \$1,469,846, which represents a 47.6 percent decrease from 2017.
- The Academy implemented GASB 75, which reduced beginning net position as previously reported by \$432,742.
- A decrease in net pension liability and net OPEB liability substantially decreased fringe benefits (reported as pension/OPEB expense) compared to fiscal year 2017. See further explanation after Table 1.

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:

Miami Valley Academies
Montgomery County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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.

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 prepared on an accrual basis of accounting 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 (\$2,119,591) to (\$2,552,333).

Using this Financial Report and Overview of Financial Statements

This report consists of four parts, Management's Discussion & Analysis, the basic financial statements, notes to the basic financial statements, and the Required Supplementary Information. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Miami Valley Academies
Montgomery County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The statement of net position answers the question of how well the Academy performed financially during 2018. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless of when the cash is received or expended.

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 building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The statement of revenues, expenses and changes in net position presents information showing how the Academy's net position changed during the most recent fiscal year.

The statement of cash flows presented the sources and uses of the Academy's cash and how it changes during the most recent fiscal year.

Table 1 provides a summary of the Academy's net position for fiscal years 2018 and 2017.

Statement of Net Position		Restated
	2018	2017
Assets		
Current Assets	\$ 33,114	\$ 51,183
Capital Assets, Net	<u>35,764</u>	<u>65,122</u>
<i>Total Assets</i>	<u>68,878</u>	<u>116,305</u>
 Deferred Outflows	 <u>385,927</u>	 <u>429,126</u>
 Liabilities		
Current Liabilities	206,334	134,831
Long Term Liabilities	<u>1,412,893</u>	<u>2,954,242</u>
<i>Total Liabilities</i>	<u>1,619,227</u>	<u>3,089,073</u>
 Deferred Inflows	 <u>812,989</u>	 <u>8,691</u>
 Net Position		
Investment in Capital Assets	35,764	65,122
Unrestricted	<u>(2,013,175)</u>	<u>(2,617,455)</u>
<i>Total Net Position</i>	<u>\$ (1,977,411)</u>	<u>\$ (2,552,333)</u>

Total assets decreased \$47,427. This decrease is primarily due to a decrease in intergovernmental receivable and depreciation of the capital assets. The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits by SERS. The significant changes in pension and OPEB deferred outflows and pension deferred

Miami Valley Academies
Montgomery County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

inflows are primarily from changes in proportionate share of contributions. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

Table 2 shows the change in net position for fiscal years 2018 and 2017.

(Table 2)
Change in Net Position

	2018	2017
State Basic Aid	\$ 871,956	\$ 793,280
Facilities Aid	20,766	0
Other Operating Revenue	3,445	6,784
Federal and State Grants	228,864	276,715
Total Revenue	1,125,031	1,076,779
Salaries And Wages	51,534	573,786
Fringe Benefits	(653,312)	231,299
Purchased Services	1,077,230	328,119
Supplies And Materials	12,613	26,634
Other Expenses	32,686	11,694
Depreciation	29,358	31,449
Total Expense	550,109	1,202,981
Change In Net Position	\$ 574,922	\$ (126,202)

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 \$1,151 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 \$69,450. Consequently, in order to compare 2018 total expenses to 2017, the following adjustments are needed:

Total 2018 Expenses under GASB 75	\$ 550,109
Negative OPEB Expense under GASB 75	69,450
2018 Contractually Required Contribution	1,869
Adjusted 2018 Expenses	621,428
Total 2017 Expenses under GASB 45	1,202,981
Decrease in Expenses not Related to OPEB	\$ (581,553)

Miami Valley Academies
Montgomery County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The Academy's operating and non-operating revenues in 2018 were based on the Academy's full-time equivalent (FTE) and the Academy's federal grant funding received throughout the year. The increase in Academy's revenue was primarily caused by the increase in student enrollment. See financial highlights for explanation of fluctuations in operating expenses. The negative expense reported by fringe benefits expense was also caused by these accruals. The Academy's most significant expenses, "Purchased services" are a result of the management agreement in place between the Academy and EEG, LLC. Effective June 1, 2017, the Academy entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for one year and will renew for one (1) additional term of two (2) years. The agreement provides that specific percentages of the revenues received by the Academy will be paid to EEG, LLC to fund operations (see notes to the basic financial statements, note 8).

Capital Assets

At June 30, 2018, the capital assets of the Academy consisted of \$1,028,010 of equipment and leasehold improvements offset by \$992,246 in accumulated depreciation resulting in net capital assets of \$35,764.

For more information on capital assets, see note 6 in the notes to the financial statements.

Current Financial Issues

Miami Valley Academies received revenue for 106 students in 2018. State law governing community schools allows for the Academy to have open enrollment across traditional school district boundaries.

The Academy receives its support almost entirely from state aid. Per pupil revenue from state aid for the Academy averaged \$8,467 in fiscal year 2018. The Academy receives additional revenues from grant subsidies.

Although there is a possibility that state aid will be cut in future years due to the economic climate, the Academy feels that the relationship with the management company will insulate them from any significant change.

Financial Distress

For fiscal year 2018, the Academy had a negative net position of (\$1,977,411). Excluding items related to *GASB 68 Accounting and Financial Reporting for Pension and GASB 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (Deferred Outflows, Deferred Inflows, Net Pension Liability, and Net OPEB Liability), the Academy reported a negative net position of (\$137,456).

See Note 15 of the notes to the basic financial statements for additional information on the Academy's plan to eliminate this position.

Contacting the Academy's Financial Management

This financial report is designed to provide our readers with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

Miami Valley Academies
Montgomery County, Ohio
Statement of Net Position
June 30, 2018

ASSETS

Current Assets

Cash & Cash Equivalents	\$ 13,383
Accounts Receivable	1,251
State Aid Receivable	14,774
Prepaid Insurance	3,706

Total Current Assets	<u>33,114</u>
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Noncurrent Assets

Capital Assets	<u>35,764</u>
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Total Assets	<u>68,878</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pension	371,703
OPEB	<u>14,224</u>

Total Deferred Outflows of Resources	<u>385,927</u>
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LIABILITIES

Current Liabilities

Accounts Payable	206,334
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Total Current Liabilities	<u>206,334</u>
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Long Term Liabilities

Net Pension Liability	1,183,399
Net OPEB Liability	<u>229,494</u>

Total Long Term Liabilities	<u>1,412,893</u>
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Total Liabilities	<u>1,619,227</u>
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DEFERRED INFLOWS OF RESOURCES

Pension	666,836
OPEB	<u>146,153</u>

Total Deferred Inflows of Resources	<u>812,989</u>
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NET POSITION

Investment in Capital Assets	35,764
Unrestricted Net Position	<u>(2,013,175)</u>

Total Net Position	<u>\$ (1,977,411)</u>
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See accompanying notes to the basic financial statements.

Miami Valley Academies
Montgomery County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

OPERATING REVENUES

State Basic Aid	\$	871,956
Facilities Aid		20,766
Other Operating Revenue		3,445
		896,167
Total Operating Revenues		896,167

OPERATING EXPENSES

Salaries And Wages		51,534
Fringe Benefits		(653,312)
Purchased Services		1,077,230
Supplies And Materials		12,613
Other Expenses		32,686
Depreciation		29,358
		550,109
Total Operating Expenses		550,109
Operating Income (Loss)		346,058

NON-OPERATING REVENUES

Federal and State Grants		228,864
		228,864
Total Non-Operating Revenues		228,864
Change In Net Position		574,922
Net Position Beginning of Year (Restated)		(2,552,333)
Net Position End of Year	\$	(1,977,411)

See accompanying notes to the basic financial statements.

Miami Valley Academies
Montgomery County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From State of Ohio	\$	890,663
Cash Payments To Suppliers For Goods And Services		(949,538)
Cash Payments For Personal Services		(183,035)
		(241,910)
Net Cash Used For Operating Activities		(241,910)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received From Grant Programs		244,027
		2,117
Net Increase in Cash and Cash Equivalents		2,117
Cash and Cash Equivalents at Beginning of Year		11,266
		13,383
Cash and Cash Equivalents at End of Year	\$	13,383

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES

Operating Income (Loss)	\$	346,058
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ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES

Depreciation		29,358
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:		
Accounts Receivable		(1,251)
State Aid Receivable		(14,774)
Intergovernmental Receivable		24,754
Prepays		(3,706)
Deferred Outflows of Resources		43,199
Deferred Inflows of Resources		804,298
Accounts Payable		176,697
Intergovernmental Payable		(14,233)
Fringe Benefits		(28,774)
Accrued Wages and Benefits		(62,187)
Net Pension/OPEB Liability		(1,541,349)
		(587,968)
Total Adjustments		(587,968)
Net Cash Used For Operating Activities	\$	(241,910)

See accompanying notes to the basic financial statements.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Miami Valley Academies (the Academy) is a federal tax exempt 501(c)(3) and state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy operates under a self-appointing five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board will be filled by the appointment of a successor trustee by a majority vote of the then existing trustee. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility to provide education services to 106 students in grades K-8.

The Academy's sponsor is Kids Count of Dayton (Sponsor). The Academy entered into the sponsor contract in fiscal year 2011.

The Academy contracted with Educational Empowerment Group, LLC. for management of the Academy effective June 1, 2017 through June 30, 2018. The management company handles the educational instruction, strategic planning, EMIS reporting, federal program oversight, student recruitment, financial management, and several other things including providing the Academy Superintendent. Additional information is provided in Note 8.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The Academy's financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in Net Position, net financial position and cash flows.

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) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources as well as all liabilities and deferred inflows of resources are included

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in Net Position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not require the Academy to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Cash and Cash Equivalents

All cash received by the Academy is maintained in a demand deposit account.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, facilities aid, 3rd grade reading bonus and casino tax distributions, which are reflected under “Operating revenues” on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

Prepaid

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

As of June 30, 2018, the Academy’s capital assets had a net book value of \$35,764 (see note 6). Depreciation is computed by the straight-line method over five years for equipment and 6-8 years for leasehold improvements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net Position consists of capital assets, net of accumulated depreciation and unrestricted. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the Academy's primary activities. For the Academy, these revenues are primarily state aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

In addition to liabilities, the statements 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 until that time. For the Academy, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 11 and 12).

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 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 financial statements. See below for the effect on net position as previously reported.

Net Position, June 30, 2017	\$ (2,119,591)
Adjustments:	
Net OPEB Liability	(433,893)
Deferred Outflow-Payments Subsequent to Measurement Date	1,151
Restated Net Position, July 1, 2017	\$ (2,552,333)

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.

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. 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.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS

Protection of the Academy'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. At June 30, 2018 the carrying balance of the Academy's deposits was \$13,383 and the bank balance was \$13,383, the entire balance of which was covered by the FDIC.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018 consisted of accounts and state aid receivables arising from grants, entitlements, and accounts receivable from miscellaneous governments. All receivables are considered collectible in full.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2018, the Academy's capital assets consisted of the following:

	Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018
<i>Capital Assets, being depreciated:</i>				
Leasehold Improvements	\$ 674,512	\$ 0	\$ 0	\$ 674,512
Equipment	353,498	0	0	353,498
Total Capital Assets, being depreciated	<u>1,028,010</u>	<u>0</u>	<u>0</u>	<u>1,028,010</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(631,694)	(18,443)	0	(650,137)
Equipment	(331,194)	(10,915)	0	(342,109)
Total Accumulated Depreciation	<u>(962,888)</u>	<u>(29,358)</u>	<u>0</u>	<u>(992,246)</u>
Total Capital Assets being depreciated, net	<u>65,122</u>	<u>(29,358)</u>	<u>0</u>	<u>35,764</u>

NOTE 7 - RISK MANAGEMENT

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with EEG, LLC, EEG, LLC has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see note 8). There have been zero claims the past three years, nor has there been a reduction in insurance coverage from the prior year.

Director and Officer - Coverage has been purchased by the Academy with a \$2,000,000 aggregate limit and a \$5,000, \$15,000, or \$50,000 deductible, depending on the claim.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 8 - AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP, LLC

Effective June 1, 2017, the Academy entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for one year and will renew for additional term of two years unless one party notifies the other party no later than six months prior to the term expiration date of its intention to not renew the Agreement. Substantially all functions of the Academy have been contracted to EEG, LLC. EEG, LLC is responsible and accountable to the Academy's Board of Directors for the administration and operation of the Academy. The Academy is required to pay EEG, LLC a monthly continuing fee of 13 percent of the Academy's "Qualified gross revenues", defined in the Agreement as, revenue per student received by the Academy pursuant to the Ohio Revised Code. The continuing fee is paid to EEG, LLC based on the qualified gross revenues.

EEG, LLC is responsible for procuring the educational program at the Academy, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance which are then invoiced to the Academy or reimbursed to EEG, LLC.

The table below shows the management company expenses for fiscal year 2018:

Salaries and Wages	\$ 452,017
Employee Benefits	75,554
Supplies	2,740
Other Direct Costs	14,248
Overhead	<u>141,438</u>
Total	<u>\$ 685,997</u>

The Educational Empowerment Group, LLC charges expenses benefiting more than one school (i.e. overhead) are prorated based on full time equivalent (FTE) head count as of June 30, 2018 by each school it manages.

NOTE 9 - SPONSORSHIP FEES

Paragraph 2.1 of the sponsor contract with Kids Count of Dayton, Inc. (the Sponsor) states, in part, "for and in consideration of 3% of all funds received by the Academy, including state start-up grants, but excluding Federal funds, the Sponsor shall provide the oversight required by law." Such fees are paid to the Sponsor monthly. As indicated on the statement of revenues, expenses, and changes in Net Position, the Academy incurred \$26,116 in sponsorship fees to the Sponsor in fiscal year 2018.

NOTE 10 - PURCHASED SERVICES

For the year ended June 30, 2018, purchased service expenses were as follows:

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Purchased Services	Amount
Direct Expenses:	
Personnel services	\$ 624,103
Professional services	114,390
Building services	256,311
Food service	56,310
Sponsor services	26,116
Total	\$ 1,077,230

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy non-teaching employees participate in SERS, a statewide, cost-sharing multiple-

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The Academy's contractually required contribution to SERS was \$11,432 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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. Effective July 1, 2017, the cost of living adjustment was reduced to zero. 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.

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's contractually required contribution to STRS was \$56,661 for fiscal year 2018.

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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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's 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00200370%	0.00447768%	
Prior Measurement Date	<u>0.00205800%</u>	<u>0.00707950%</u>	
Change in Proportionate Share	<u>-0.00005430%</u>	<u>-0.00260182%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 119,717	\$ 1,063,682	\$ 1,183,399
Pension Expense	\$ (7,047)	\$ (547,393)	\$ (554,440)

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's 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:

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 5,152	\$ 41,075	\$ 46,227
Changes of Assumptions	6,191	232,639	238,830
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	1,983	16,570	18,553
Academy Contributions Subsequent to the Measurement Date	11,432	56,661	68,093
Total Deferred Outflows of Resources	\$ 24,758	\$ 346,945	\$ 371,703

Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 8,573	\$ 8,573
Net Difference between Projected and Actual Earnings on Pension Plan Investments	565	35,104	35,669
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	11,197	611,397	622,594
Total Deferred Inflows of Resources	\$ 11,762	\$ 655,074	\$ 666,836

\$68,093 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ 1,065	\$ (97,232)	\$ (96,167)
2020	2,972	(49,485)	(46,513)
2021	317	(83,866)	(83,549)
2022	(2,790)	(134,207)	(136,997)
	\$ 1,564	\$ (364,790)	\$ (363,226)

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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

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:

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Academy's 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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's Proportionate Share of the Net Pension Liability	\$ 166,136	\$ 119,717	\$ 80,831

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2018, 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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
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 %	

*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.

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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's Proportionate Share of the Net Pension Liability	\$ 1,524,753	\$ 1,063,682	\$ 675,300

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.

NOTE 12 - 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.

The net OPEB liability represents the Academy's 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's 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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

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's surcharge obligation was \$1,446.

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's contractually required contribution to SERS was \$1,869 for fiscal year 2018. Of this amount \$1,446 is reported as an 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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability was based on the Academy's 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:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.00204160%	0.00447768%	
Prior Measurement Date	0.00193936%	0.00707950%	
Change in Proportionate Share	<u>0.00010224%</u>	<u>-0.00260182%</u>	
Proportionate Share of the Net OPEB Liability	\$ 54,791	\$ 174,703	\$ 229,494
OPEB Expense	\$ 3,737	\$ (73,187)	\$ (69,450)

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	\$ 10,085	\$ 10,085
Changes in Proportionate Share and Differences between Academy Contributions and Proportionate Share of Contributions	2,270	0	2,270
Academy Contributions Subsequent to the Measurement Date	1,869	0	1,869
Total Deferred Outflows of Resources	<u>\$ 4,139</u>	<u>\$ 10,085</u>	<u>\$ 14,224</u>
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 145	\$ 7,467	\$ 7,612
Changes of Assumptions	5,199	14,073	19,272
Changes in Proportionate Share and Differences between Academy Contributions and Proportionate Share of Contributions	0	119,269	119,269
Total Deferred Inflows of Resources	<u>\$ 5,344</u>	<u>\$ 140,809</u>	<u>\$ 146,153</u>

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

\$1,869 reported as deferred outflows of resources related to OPEB resulting from 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	\$ (1,098)	\$ (22,409)	\$ (23,507)
2020	(1,098)	(22,409)	(23,507)
2021	(841)	(22,409)	(23,250)
2022	(37)	(22,408)	(22,445)
2023	0	(20,542)	(20,542)
Thereafter	0	(20,547)	(20,547)
	<u>\$ (3,074)</u>	<u>\$ (130,724)</u>	<u>\$ (133,798)</u>

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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

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	<u>100.00 %</u>	

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.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Sensitivity of the Academy's 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	\$ 66,167	\$ 54,791	\$ 45,778

	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	\$ 44,459	\$ 54,791	\$ 68,466

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.

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

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
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
	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.

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.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Sensitivity of the Academy's 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	\$ 234,535	\$ 174,703	\$ 127,415

	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	\$ 121,376	\$ 174,703	\$ 244,887

NOTE 13 - CONTINGENCIES

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such adjustments will not have a material adverse effect on the financial position of the Academy.

Enrollment FTE

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.

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 has performed such a review on the Academy for fiscal year 2018. Based on the review, the Academy did not report a payable or a receivable.

In addition, the Academy's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, ODE adjustments for fiscal year 2018 did not result in an additional liability of, or payable to, the Academy.

Litigation

The Academy is not a party to legal proceedings.

Miami Valley Academies
Montgomery County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 14 - OPERATING LEASE

The Academy leases its facilities from B.F. Hill Investments, Inc. under a six-year lease agreement beginning July 1, 2002 through June 30, 2008 that was extended on a monthly basis for 2009 through 2017. The leases was renewed for a three year term beginning July 1, 2017 through June 30, 2020. The agreement requires a \$25,000 payable at the execution of the lease agreement as well as monthly payments of \$8,334 plus additional monthly rent of \$4,706 to be paid in eleven equal installments beginning August 1, 2017 for previously unpaid rent owed to the landlord. Rent for fiscal year 2018 totaled \$176,769. The terms of the lease are not expected to change significantly during fiscal year 2019.

NOTE 15 – FISCAL DISTRESS

As of June 30, 2018, the Academy had a deficit of \$1,977,411. GASB 68 and 75 accruals accounted for \$1,839,955 of this deficit. The Academy’s administration and Board have instituted budgetary constraints which ensure discretionary expenditures remain within annual resources.

NOTE 16 – SUBSEQUENT EVENTS

The Academy entered into a sponsorship agreement with Educational Resource Consultants of Ohio effective July 1, 2018 for a three year term expiring June 30, 2021.

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Miami Valley Academies
Montgomery 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>
<i>School Employees Retirement System (SERS)</i>					
Academy's Proportion of the Net Pension Liability	0.00200370%	0.00205800%	0.00225900%	0.00211600%	0.00211600%
Academy's Proportionate Share of the Net Pension Liability	\$ 119,717	\$ 150,627	\$ 128,912	\$ 107,090	\$ 125,832
Academy's Covered Payroll	\$ 38,286	\$ 57,586	\$ 86,373	\$ 49,524	\$ 51,763
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	312.69%	261.57%	149.25%	216.24%	243.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<i>State Teachers Retirement System (STRS)</i>					
Academy's Proportion of the Net Pension Liability	0.00447768%	0.00707950%	0.00703629%	0.00691024%	0.00691024%
Academy's Proportionate Share of the Net Pension Liability	\$ 1,063,682	\$ 2,369,722	\$ 1,944,625	\$ 1,680,810	\$ 2,002,169
Academy's Covered Payroll	\$ 492,264	\$ 694,729	\$ 818,914	\$ 715,477	\$ 1,053,962
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	341.10%	237.46%	234.92%	189.97%
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.

Miami Valley Academies
Montgomery County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - Pension
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 11,432	\$ 5,360	\$ 8,062	\$ 11,384
Contributions in Relation to the Contractually Required Contribution	<u>(11,432)</u>	<u>(5,360)</u>	<u>(8,062)</u>	<u>(11,384)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 84,681	\$ 38,286	\$ 57,586	\$ 86,373
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 56,661	\$ 68,917	\$ 97,262	\$ 114,648
Contributions in Relation to the Contractually Required Contribution	<u>(56,661)</u>	<u>(68,917)</u>	<u>(97,262)</u>	<u>(114,648)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 404,721	\$ 492,264	\$ 694,729	\$ 818,914
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 6,864	\$ 7,164	\$ 6,619	\$ 4,949	\$ 4,834	\$ 4,934
<u>(6,864)</u>	<u>(7,164)</u>	<u>(6,619)</u>	<u>(4,949)</u>	<u>(4,834)</u>	<u>(4,934)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 49,524	\$ 51,763	\$ 49,212	\$ 39,372	\$ 35,702	\$ 50,142
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$ 93,012	\$ 137,015	\$ 153,139	\$ 83,571	\$ 75,261	\$ 86,809
<u>(93,012)</u>	<u>(137,015)</u>	<u>(153,139)</u>	<u>(83,571)</u>	<u>(75,261)</u>	<u>(86,809)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 715,477	\$ 1,053,962	\$ 1,177,992	\$ 642,854	\$ 578,931	\$ 667,762
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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Miami Valley Academies
Montgomery 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	0.00204160%	0.00193936%
Academy's Proportionate Share of the Net OPEB Liability	\$ 54,791	\$ 55,279
Academy's Covered Payroll	\$ 38,286	\$ 57,586
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	143.11%	95.99%
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	0.00447768%	0.00707950%
Academy's Proportionate Share of the Net OPEB Liability	\$ 174,703	\$ 378,614
Academy's Covered Payroll	\$ 492,264	\$ 694,729
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	54.50%
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.

Miami Valley Academies
Montgomery County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - OPEB
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 1,869	\$ 1,151	\$ 354	\$ 944
Contributions in Relation to the Contractually Required Contribution	<u>(1,869)</u>	<u>(1,151)</u>	<u>(354)</u>	<u>(944)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 84,681	\$ 38,286	\$ 57,586	\$ 86,373
OPEB Contributions as a Percentage of Covered Payroll (1)	2.21%	3.01%	0.61%	1.09%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 404,721	\$ 492,264	\$ 694,729	\$ 818,914
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 471	\$ 492	\$ 287	\$ 193	\$ 287	\$ 2,307
<u>(471)</u>	<u>(492)</u>	<u>(287)</u>	<u>(193)</u>	<u>(287)</u>	<u>(2,307)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 49,524	\$ 51,763	\$ 49,212	\$ 39,372	\$ 35,702	\$ 50,142
0.95%	0.95%	0.58%	0.49%	0.80%	4.60%
\$ 7,155	\$ 10,540	\$ 11,780	\$ 6,429	\$ 5,789	\$ 6,678
<u>(7,155)</u>	<u>(10,540)</u>	<u>(11,780)</u>	<u>(6,429)</u>	<u>(5,789)</u>	<u>(6,678)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 715,477	\$ 1,053,962	\$ 1,177,992	\$ 642,854	\$ 578,931	\$ 667,762
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Miami Valley Academies
Montgomery 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 4.00–22.00 percent to 3.50–18.20 percent.
- Investment rate of return was reduced from 7.75 percent to 7.50 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 disabled 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.

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

Miami Valley Academies
Montgomery County
5656 North Springboro Pike
Moraine, Ohio 45449

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Miami Valley Academies, Montgomery County, (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 August 21, 2019 wherein we noted the Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We also noted the Academy has a net position deficiency.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

August 21, 2019

OHIO AUDITOR OF STATE KEITH FABER



MIAMI VALLEY ACADEMIES

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 10, 2019**