

**MOUND STREET MILITARY
CAREERS ACADEMY
MONTGOMERY COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2018**

James G. Zupka, CPA, Inc.
Certified Public Accountants

OHIO AUDITOR OF STATE KEITH FABER



Board of Directors
Mound Street Military Careers Academy
354 Mound Street
Dayton, Ohio 45402-8325

We have reviewed the *Independent Auditor's Report* of the Mound Street Military Careers Academy, Montgomery County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 7, 2019

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**MOUND STREET MILITARY CAREERS ACADEMY
MONTGOMERY COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Garfield Hts., Ohio 44125

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
Mound Street Military Careers Academy
Dayton, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Mound Street Military Careers Academy , 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

As discussed in Note 15 to the basic 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*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

A handwritten signature in cursive script that reads "James G. Zupka, CPA, Inc.".

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 26, 2018

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**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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

Financial Highlights

- Total net position increased \$50,424 in fiscal year 2018, which represents a 6% increase from the prior year.
- Total assets decreased \$418,330 which represents a 48% decrease from the prior year.
- Total operating revenue for fiscal year 2018 in the amount of \$343,543 was \$34,279 less than the operating revenue reported for fiscal year 2017.
- The non-operating revenue for fiscal year 2018 in the amount of \$197,150 was \$49,752 less than the non-operating revenue reported for fiscal year 2017.

Using this Annual Financial Report

This financial report contains the basic financial statements of the Academy, as well as the management's discussion and analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity-wide and the fund presentation are the same.

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

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

The statement of revenues, expenses and changes in net position reports the changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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

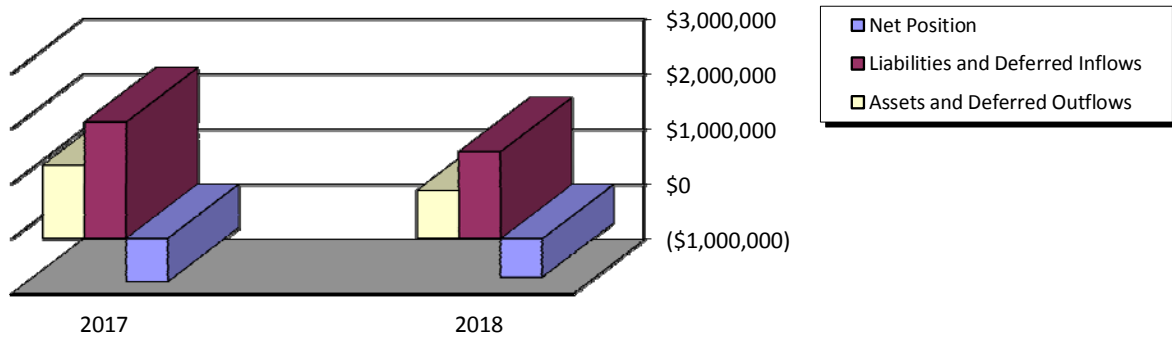
The Academy as a Whole

As stated previously, the statement of net position provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net position for 2018 compared to 2017.

**Table 1
Net Position**

	Net Position	
	2018	2017 - Restated
Assets:		
Current Assets	\$302,612	\$713,455
Capital Assets	142,270	149,757
Total Assets	444,882	863,212
Deferred Outflows of Resources:		
OPEB	10,279	2,112
Pension	418,164	466,017
Total Deferred Outflows of Resources	428,443	468,129
Liabilities:		
Current Liabilities	57,030	62,367
Long-Term Liabilities	1,285,875	1,924,719
Total Liabilities	1,342,905	1,987,086
Deferred Inflows of Resources:		
OPEB	53,723	0
Pension	206,997	124,979
Total Deferred Inflows of Resources	260,720	124,979
Net Position:		
Investment in Capital Assets	142,270	149,757
Restricted	440,291	442,486
Unrestricted	(1,312,861)	(1,372,967)
Total Net Position	(\$730,300)	(\$780,724)

**Mound Street Military Careers Academy
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**



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 of resources related to pension and OPEB.

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

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these liabilities.

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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 (\$459,203) to (\$780,724).

Total net position of the Academy increased by \$50,424. The increase in total net position from fiscal year 2017 is primarily a result of the changes related to net pension liability and net OPEB liability. Total assets decreased \$418,330. Deferred outflows of resources decreased \$39,686 and deferred inflows of resources increased \$135,741. Total liabilities decreased \$644,181 primarily due to a decrease in net pension liability when compared to 2017.

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Table 2 shows the changes in net position for the fiscal years ended June 30, 2018 and 2017.

**Table 2
Changes in Net Position**

	Change in Net Position	
	2018	2017
Operating Revenues:		
Sales	\$2,559	\$2,623
Foundation Revenue	302,143	354,064
Other Revenues	38,841	21,135
Total Operating Revenues	343,543	377,822
Operating Expenses:		
Salaries	416,567	499,128
Fringe Benefits	(292,155)	206,169
Purchased Services	323,575	268,560
Materials and Supplies	23,114	16,619
Depreciation	7,487	7,546
Other Expenses	11,681	30,921
Total Operating Expenses	490,269	1,028,943
Operating Loss	(146,726)	(651,121)
Non-Operating Revenues (Expenses):		
Investment Earnings	719	3,525
State and Federal Grants	196,431	243,377
Total Non-Operating Revenues (Expenses)	197,150	246,902
Change in Net Position	50,424	(404,219)
Net Position (Deficit) - Beginning of Year, Restated	(780,724)	N/A
Net Position (Deficit) - End of Year	(\$730,300)	(\$780,724)

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 \$2,112 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$38,613. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Total 2018 operating expenses under GASB 75	\$490,269
Negative OPEB expense under GASB 75	38,613
2018 contractually required contribution	3,054
Adjusted 2018 operating expenses	<u>531,936</u>
Total 2017 operating expenses under GASB 45	<u>1,028,943</u>
Change in operating expenses not related to OPEB	<u><u>(\$497,007)</u></u>

Total operating revenues decreased due to a decrease in foundation revenue between fiscal years. Total operating expenses decreased due to changes related to net pension liability and net OPEB liability.

Capital Assets

At the end of fiscal 2018, the Academy had \$142,270 invested in land, buildings and improvements and furniture and equipment. Table 3 shows fiscal 2018 balances compared to fiscal 2017:

Table 3

**Capital Assets at Year End
(Net of Depreciation)**

	Capital Assets	
	2018	2017
Land	\$6,515	\$6,515
Buildings and Improvements	119,553	124,220
Furniture and Equipment	16,202	19,021
Vehicles	<u>0</u>	<u>1</u>
Total Net Capital Assets	<u><u>\$142,270</u></u>	<u><u>\$149,757</u></u>

See Note 5 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Debt

At June 30, 2018, the Academy did not have any outstanding debt obligations. For information regarding other long-term obligations, please see Note 10 of the notes to the basic financial statements.

**Mound Street Military Careers Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Contacting the Academy

This financial report is designed to provide a general overview of the finances of Mound Street Military Careers Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Mound Street Military Careers Academy Attn: Treasurer, 354 Mound Street Dayton, Ohio 45402, (937) 223-3041.

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Mound Street Military Careers Academy
Statement of Net Position
June 30, 2018

Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	\$294,821
Receivables:	
Accounts	1,558
Intergovernmental	<u>6,233</u>
Total Current Assets	<u>302,612</u>
Noncurrent Assets:	
Nondepreciable Capital Assets	6,515
Depreciable Capital Assets, Net	<u>135,755</u>
Total Noncurrent Assets	<u>142,270</u>
Total Assets	<u>444,882</u>
Deferred Outflows of Resources:	
Pension	418,164
OPEB	<u>10,279</u>
Total Deferred Outflows of Resources	<u>428,443</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	527
Accrued Wages and Benefits	<u>56,503</u>
Total Current Liabilities	<u>57,030</u>
Long-Term Liabilities:	
Compensated Absences	43,423
Net Pension Liability	1,006,612
Net OPEB Liability	<u>235,840</u>
Total Long-Term Liabilities	<u>1,285,875</u>
Total Liabilities	<u>1,342,905</u>
Deferred Inflows of Resources:	
OPEB	53,723
Pension	<u>206,997</u>
Total Deferred Inflows of Resources	<u>260,720</u>
Net Position:	
Investment in Capital Assets	142,270
Restricted	440,291
Unrestricted (deficit)	<u>(1,312,861)</u>
Total Net Position (deficit)	<u><u>(\$730,300)</u></u>

See accompanying notes to the basic financial statements.

Mound Street Military Careers Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Operating Revenues:	
Sales	\$2,559
Foundation Revenue	302,143
Other Revenues	<u>38,841</u>
Total Operating Revenues	<u>343,543</u>
Operating Expenses:	
Salaries	416,567
Fringe Benefits	(292,155)
Purchased Services	323,575
Materials and Supplies	23,114
Depreciation	7,487
Other	<u>11,681</u>
Total Operating Expenses	<u>490,269</u>
Operating Loss	<u>(146,726)</u>
Non-Operating Revenues:	
Investment Earnings	719
State and Federal Grants	<u>196,431</u>
Total Non-Operating Revenues	<u>197,150</u>
Change in Net Position	50,424
Net Position (deficit) - Beginning of Year, Restated	<u>(780,724)</u>
Net Position (deficit) - End of Year	<u><u>(\$730,300)</u></u>

See accompanying notes to the basic financial statements.

Mound Street Military Careers Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$304,702
Cash Received from Other Operating Revenue	38,397
Cash Payments to Employees for Salaries and Benefits	(592,345)
Cash Payments for Materials, Supplies and Other Services	(347,645)
Cash Payments for Other Expenses	(11,716)
	<hr/>
Net Cash Used in Operating Activities	(608,607)
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	195,236
	<hr/>
Net Cash Provided by Noncapital Financing Activities	195,236
Cash Flows from Investing Activities:	
Earnings on Investments	719
	<hr/>
Net Cash Provided by Cash Flows from Investing Activities	719
Net Decrease in Cash and Cash Equivalents	(412,652)
Cash and Cash Equivalents - Beginning of Year	707,473
	<hr/>
Cash and Cash Equivalents - End of Year	294,821
	<hr/> <hr/>
Reconciliation of Operating Loss to	
Net Cash Used in Operating Activities	
Operating Loss	(146,726)
Adjustments:	
Depreciation	7,487
Changes in Assets & Liabilities and Deferred Inflows & Outflows of resources	
(Increase) Decrease in Receivables	(614)
(Increase) Decrease in Deferred Outflows of Resources - Pension	47,853
(Increase) Decrease in Deferred Outflows of Resources - OPEB	(8,167)
Increase (Decrease) in Accrued Liabilities	(30,682)
Increase (Decrease) in Payables	(1,119)
Increase (Decrease) in Deferred Inflows of Resources - Pension	82,018
Increase (Decrease) in Net Pension Liability	(524,587)
Increase (Decrease) in Deferred Inflows of Resources - OPEB	53,723
Increase (Decrease) in Net OPEB Liability	(87,793)
	<hr/>
Net Cash Used in Operating Activities	(\$608,607)
	<hr/> <hr/>
<u>Schedule of Noncash Capital Activities:</u>	
During the fiscal year, these amounts were received representing noncash contributions of:	
Intergovernmental Receivables	\$6,233
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

Note 1 – Description of the Academy and Reporting Entity

Mound Street Military Careers Academy (the Academy) is a 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 was approved for operation under contract with St. Aloysius Orphanage (Sponsor) as of July 1, 2017. The Academy operates under a self-appointing eight-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by 1 superintendent, 1 principal, 13 certified teaching personnel, 8 non-certified support personnel and 1 academic coach who provide services to an enrollment of 52.89 full time equivalent students.

Note 2 – Summary of Significant Accounting Policies

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

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and all liabilities and deferred inflows of resources are included on the statement of Net Position. The difference between total assets and deferred outflows of resources, and liabilities and deferred inflows of resources is defined as Net Position. The statement of revenues, expenses and changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total Net Position.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

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 School and its Sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Each year, the School Board of Directors, with the assistance of the School's designated fiscal officer, is required to adopt an annual budget by the thirty-first day of October using the format and guidelines prescribed by the Ohio Department of Education (ODE).

Equity in Pooled Cash and Investments

All monies received by the Academy are maintained in demand deposit accounts, a savings account, and investments. For internal accounting purposes, the Academy segregates its cash using fund accounting.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

Following Ohio statutes, the Board of Trustees has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2018 amounted to \$719.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statements of financial 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 future periods and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources include pension and OPEB. These amounts are reported on the statement of net position. The deferred outflows of resources related to pension, and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section of deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources related to pension, and OPEB plans are reported on statement of net position. For more pension, and OPEB related information, see Notes 7 and 8.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement should be reported at acquisition value rather than

Mound Street Military Careers Academy
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fair value. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Depreciation is computed using the straight-line method over estimated useful lives as follows: building and improvements - 30 to 50 years, furniture and equipment - 4 to 20 years, and vehicles - 6 to 8 years.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and various grants awarded through state and federal programs. These programs include Title I, Title II-A, Title IV-A, Part B-IDEA, and Children's nutrition cluster. The State Foundation Program and certain other state grants are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Most other federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Revenues under state and federal grant or entitlement programs for the 2018 school year totaled \$498,574.

Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of Net Position relating to expenses, which are due but unpaid as of June 30, 2018 including:

Accrued wages and benefits payable – payments for salary, health benefits, SERS and STRS contributions, Medicare deductions, SERS' surcharge and workers' compensation made after year-end for services rendered in fiscal year 2018. Teaching personnel are paid in 26 equal installments, ending with the first payroll in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2018 for the salary payments made to personnel after June 30, 2018 related to fiscal year 2018. A liability has also been recognized for health care payments made after year end for payroll services earned as of June 30, 2018.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/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.

Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Academy's termination policy. The Academy records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Academy.

**Mound Street Military Careers Academy
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The entire compensated absences liability is reported on the basic financial statements.

The Academy does not record a liability for personal and vacation leave because its policy is not to pay out accumulated personal and vacation leave balances upon termination of employment.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Investment in capital assets consists of capital assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

As of June 30, 2018, of the Academy's \$440,291 in restricted net position, none was restricted by enabling legislation.

Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various state and federal grants, as well as interest revenue, comprise the non-operating revenues of the Academy. The Academy had no non-operating expenses for fiscal year 2018.

Federal Tax Exemption Status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code.

Estimates

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

Note 3 – Sponsorship and Service Contract Fees

In fiscal year 2018, payments were made by the Mound Street Military Careers Academy to the Shared Resource Center totaling \$36,070. These represent payments for fiscal services provided by the Shared Resource Center to the Mound Street Military Careers Academy.

The Mound Street Military Careers Academy contracted with St. Aloysius Orphanage as its sponsor for one year effective July 1, 2018. SAO was paid three percent (3%) for the fiscal year ended June 30, 2018,

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of all foundation funds received by the Academy from the State of Ohio. Total fees for fiscal year 2018 were \$11,138. The Sponsor provides oversight, monitoring, and technical assistance for the Academy.

Note 4 – Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2018, \$50,055 of the Academy's bank balance of \$335,772 was exposed to custodial credit risk because it was uninsured and uncollateralized. There was a balance of \$20 in petty cash.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the Academy and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

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. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

The Academy had no investments as of June 30, 2018.

Mound Street Military Careers Academy
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Note 5 – Capital Assets

A summary of the Academy’s capital assets at June 30, 2018, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital Assets, not being depreciated:</i>				
Land	\$6,515	\$0	\$0	\$6,515
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	179,667	0	0	179,667
Furniture and Equipment	71,092	0	0	71,092
Vehicles	<u>7,435</u>	<u>0</u>	<u>0</u>	<u>7,435</u>
Totals at Historical Cost	<u>264,709</u>	<u>0</u>	<u>0</u>	<u>264,709</u>
Less Accumulated Depreciation:				
Buildings and Improvements	55,447	4,667	0	60,114
Furniture and Equipment	52,071	2,819	0	54,890
Vehicles	<u>7,434</u>	<u>1</u>	<u>0</u>	<u>7,435</u>
Total Accumulated Depreciation	<u>114,952</u>	<u>7,487</u>	<u>0</u>	<u>122,439</u>
Capital Assets, Net	<u>\$149,757</u>	<u>(\$7,487)</u>	<u>\$0</u>	<u>\$142,270</u>

Note 6 – Risk Management

Property and liability – The Academy is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Academy contracted with Cincinnati Insurance Company for business personal property, director and officer liability, auto, and general liability insurance. Auto coverage for comprehensive and collision has a \$1,000,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$4,000,000 per occurrence, as well as, in the aggregate.

There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy’s coverage in any of the past three years.

Employee insurance benefits – The Academy offers health and dental insurance benefits to employees of whom the Academy pays 80 percent and the employee pays 20 percent of the premiums. The Academy also offers life insurance to its employees of which it pays 100 percent of the premiums. Health and life insurance benefits are administered by Anthem. Dental insurance benefits are administered by Superior. The Academy also adopted a Health Savings Account Lumenos Option 3 medical plan.

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

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

The net pension liability represents the employer'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 obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer 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 accrued wages and benefits.

Plan Description - School Employees Retirement System (SERS)

Plan Description – Non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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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 65 with 5 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; 2.20% for the first thirty years of service and 2.50% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Post-Retirement Increases – Before January 1, 2018; on each anniversary of the initial date of retirement, the allowances of all retirees and survivors are increased by 3% of the base benefit. On or after January 1, 2018; on each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0% nor greater than 2.5%. COLA's shall be suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the employer is required to contribute 14% 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% for plan members and 14% 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%. The remaining 0.5% was allocated to the Health Care Fund.

The contractually required contribution to SERS was \$19,205 for fiscal year 2018. The entire amount was paid during the fiscal year.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – 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.

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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 is 2.2% 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% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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% of the 14% member rate goes to the DC Plan and the remaining 2% 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 Ohio 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 Ohio 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 10 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% of their annual covered salary. The employer was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

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The contractually required contribution to STRS was \$43,122 for fiscal year 2018. Of this amount \$6,750 is reported as accrued wages and benefits.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$244,524	\$762,088	\$1,006,612
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00409260%	0.00320809%	
Prior Measurement Date	<u>0.00475060%</u>	<u>0.00353568%</u>	
Change in Proportionate Share	-0.00065800%	-0.00032759%	
Pension Expense	(\$1,750)	(\$330,643)	(\$332,393)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$10,523	\$29,429	\$39,952
Changes of assumptions	12,645	166,677	179,322
Changes in employer proportionate share of net pension liability	27,258	109,305	136,563
Contributions subsequent to the measurement date	<u>19,205</u>	<u>43,122</u>	<u>62,327</u>
Total Deferred Outflows of Resources	<u>\$69,631</u>	<u>\$348,533</u>	<u>\$418,164</u>
Differences between expected and actual experience	\$0	\$6,142	\$6,142
Net difference between projected and actual earnings on pension plan investments	1,162	25,153	26,315
Changes in employer proportionate share of net pension liability	<u>30,161</u>	<u>144,379</u>	<u>174,540</u>
Total Deferred Inflows of Resources	<u>\$31,323</u>	<u>\$175,674</u>	<u>\$206,997</u>

\$62,327 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 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:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$17,062	(\$2,089)	\$14,973
2020	12,778	70,279	83,057
2021	(5,369)	66,680	61,311
2022	(5,368)	(5,133)	(10,501)
Total	<u>\$19,103</u>	<u>\$129,737</u>	<u>\$148,840</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015

Prior to 2017, an assumption of 3.0% was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on 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% of male rates, and 110% of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

Discount Rate

The total pension liability was calculated using the discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return 7.50%. 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 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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%, or one percentage point higher 8.50% than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$339,336	\$244,524	\$165,100

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Actuarial Assumptions - STRS

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% 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.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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

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:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	<u>100.00%</u>	

*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% 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% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates 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% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table represents the proportionate share of the net pension liability, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current assumption:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$1,092,428	\$762,088	\$483,827

Note 8 – Defined Benefit Other Postemployment Benefits (OPEB) Plans

Net Other Postemployment Benefits (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 employer cannot control benefit terms or the manner in which OPEB are financed; however, the employer does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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.

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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, 0.5% 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 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the surcharge obligation was \$2,343.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$3,054 for fiscal year 2018. Of this amount \$2,343 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

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

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability was based on the employer'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$110,672	\$125,168	\$235,840
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.00412380%	0.00320809%	
Prior Measurement Date	0.00472023%	0.00353568%	
Change in Proportionate Share	<u>-0.00059643%</u>	<u>-0.00032759%</u>	
OPEB Expense	\$2,084	(\$40,697)	(\$38,613)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$7,225	\$7,225
Contributions subsequent to the measurement date	<u>3,054</u>	<u>0</u>	<u>3,054</u>
Total Deferred Outflows of Resources	<u>\$3,054</u>	<u>\$7,225</u>	<u>\$10,279</u>
Deferred Inflows of Resources			
Changes of assumptions	\$10,502	\$10,083	\$20,585
Net difference between projected and actual earnings on pension plan investments	292	5,350	5,642
Changes in employer proportionate share of net pension liability	<u>12,479</u>	<u>15,017</u>	<u>27,496</u>
Total Deferred Inflows of Resources	<u>\$23,273</u>	<u>\$30,450</u>	<u>\$53,723</u>

\$3,054 reported as deferred outflows of resources related to OPEB resulting from 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:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2019	(\$8,400)	(\$4,316)	(\$12,716)
2020	(8,400)	(4,317)	(12,717)
2021	(6,401)	(4,317)	(10,718)
2022	(72)	(4,317)	(4,389)
2023	0	(2,979)	(2,979)
Thereafter	0	(2,979)	(2,979)
Total	<u>(\$23,273)</u>	<u>(\$23,225)</u>	<u>(\$46,498)</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.

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

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.

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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:

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 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.

Sensitivity of the 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%) and higher (4.63%) than the current discount rate (3.63%). 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% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

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	1% Decrease 2.63%	Current Discount Rate 3.63%	1% Increase 4.63%
Proportionate share of the net OPEB liability	\$133,650	\$110,672	\$92,467

	1% Decrease 6.50% decreasing to 4.00%	Current Trend Rate 7.50% decreasing to 5.00%	1% Increase 8.50% decreasing to 6.00%
Proportionate share of the net OPEB liability	\$89,802	\$110,672	\$138,294

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%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% 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% to 4.13% 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% to 7.45%. 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

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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% to 1.9% 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 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%	

*10 year annualized geometric nominal returns, which includes the real rate of return and inflation of 2.25% 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 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.

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The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the 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%, 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%) or one percentage point higher (5.13%) 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%
Proportionate share of the net OPEB liability	\$168,036	\$125,168	\$91,288

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	\$86,961	\$125,168	\$175,452

Note 9 – Contingencies

Foundation Funding

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2018. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

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

Grants

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

Litigation

The Academy is currently not party to any legal proceedings.

Note 10 – Long-Term Obligations

Changes in long-term obligations of the Academy during fiscal year 2018 were as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
Compensated Absences	\$69,887	\$0	\$26,464	\$43,423	\$0
Subtotal Bonds & Other Amounts	69,887	0	26,464	43,423	0
Net Pension Liability:					
STRS	1,183,499	0	421,411	762,088	0
SERS	347,700	0	103,176	244,524	0
Total Net Pension Liability	1,531,199	0	524,587	1,006,612	0
Net OPEB Liability:					
STRS	189,089	0	63,921	125,168	0
SERS	134,544	0	23,872	110,672	0
Total Net OPEB Liability	323,633	0	87,793	235,840	0
Total Long-Term Liabilities	\$1,924,719	\$0	\$638,844	\$1,285,875	\$0

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For the Fiscal Year Ended June 30, 2018**

Note 11 – Related Parties

The Superintendent and Treasurer of Mound Street Military Careers Academy serve in the same capacity for Mound Street Health Careers Academy and Mound Street IT Careers Academy. All of the Board of Trustees members serve on all three Academy Boards. Transactions between the three Academies are insignificant.

Note 12 – Jointly Governed Organizations

Metropolitan Educational Technology Association

The Metropolitan Educational Technology Association (META) is an educational solutions partner providing services across Ohio. META provides cost effective fiscal network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs. The governing board of META consists of a president, vice president and nine board members, who represent the members of META. The board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the Council including budgeting, appropriating, contracting, and designating management. Each member's degree of control is limited to its representation on the Board. Financial information can be obtained from the Chief Financial Officer at 100 Executive Drive, Marion, Ohio 43302.

Note 13 – Other Purchased Services

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

Professional & Technical Services	\$147,302
Property Services	54,561
Travel Mileage/Meeting Expense	2,848
Communications	6,172
Utilities Services	30,651
Contracted Craft or Trade Services	80,995
Tuition	<u>1,046</u>
Total Other Purchased Services	<u>\$323,575</u>

Note 14 – Receivables

At 2018, the Academy had accounts and intergovernmental receivables of \$1,558 and \$6,233, respectively, which are considered collectible within one year and are presented on the statement of Net Position.

Mound Street Military Careers Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 – Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the Academy has implemented GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pensions Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, and GASB No. 86, Certain Debt Extinguishment Issues, and GASB Statement No. 85, Omnibus 2017, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

GASB Statement No. 81 sets out to improve accounting and financial reporting for irrevocable split interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement 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, this Statement 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 requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The implementation of GASB Statement No. 82 was included in the footnote disclosures for 2018.

GASB Statement No. 86 sets out to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in

Mound Street Military Careers Academy
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For the Fiscal Year Ended June 30, 2018

substance that remains outstanding for which that risk of substitution exists. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

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

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net position June 30, 2017	(\$459,203)
Adjustments:	
Net OPEB Liability	(323,633)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>2,112</u>
Restated Net Position June 30, 2017	<u><u>(\$780,724)</u></u>

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.

Note 16 – Subsequent Events

As of July 1st 2018, Mound Street Military Academy merged with the other two Mound Street Academies to form a single Mound Street entity.

REQUIRED SUPPLEMENTARY INFORMATION

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00320809%	0.00353568%	0.00289342%	0.00321293%	0.00321293%
Academy's Proportionate Share of the Net Pension Liability	\$762,088	\$1,183,499	\$799,658	\$781,496	\$1,103,833
Academy's Covered-Employee Payroll	\$383,314	\$389,000	\$269,571	\$353,523	\$420,323
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	198.82%	304.24%	296.64%	221.06%	262.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00409260%	0.00475060%	0.00403750%	0.00352900%	0.00352900%
Academy's Proportionate Share of the Net Pension Liability	\$244,524	\$347,700	\$230,384	\$178,601	\$209,921
Academy's Covered-Employee Payroll	\$131,271	\$159,593	\$123,612	\$103,579	\$113,266
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	186.27%	217.87%	186.38%	172.43%	185.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of Academy Contributions
 for Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$43,122	\$53,664	\$54,460	\$37,740	\$45,958	\$54,642	\$56,118	\$54,733	\$53,397	\$48,798
Contributions in Relation to the Contractually Required Contribution	(43,122)	(53,664)	(54,460)	(37,740)	(45,958)	(54,642)	(56,118)	(54,733)	(53,397)	(48,798)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Academy Covered-Employee Payroll	\$308,014	\$383,314	\$389,000	\$269,571	\$353,523	\$420,323	\$431,677	\$421,023	\$410,746	\$375,369
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of Academy Contributions
 for Net Pension Liability
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$19,205	\$18,378	\$22,343	\$16,292	\$14,356	\$15,676	\$8,460	\$12,012	\$11,469	\$11,442
Contributions in Relation to the Contractually Required Contribution	(19,205)	(18,378)	(22,343)	(16,292)	(14,356)	(15,676)	(8,460)	(12,012)	(11,469)	(11,442)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Academy Covered-Employee Payroll	\$142,259	\$131,271	\$159,593	\$123,612	\$103,579	\$113,266	\$62,900	\$95,561	\$84,705	\$116,280
Contributions as a Percentage of Covered-Employee Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 State Teachers Retirement System of Ohio
 Last Two Fiscal Years (1)

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.00320809%	0.00353568%
Academy's Proportionate Share of the Net OPEB Liability	\$125,168	\$189,089
Academy's Covered-Employee Payroll	\$383,314	\$389,000
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	32.65%	48.61%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.00412380%	0.00472023%
Academy's Proportionate Share of the Net OPEB Liability	\$110,672	\$134,544
Academy's Covered-Employee Payroll	\$131,271	\$159,593
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	84.31%	84.30%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of Academy Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2018	2017	2016
Contractually Required Contribution to OPEB	\$0	\$0	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy Covered-Employee Payroll	\$308,014	\$383,314	\$389,000
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
 Required Supplementary Information
 Schedule of Academy Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution to OPEB (2)	\$3,054	\$2,112	\$1,985
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>(3,054)</u>	<u>(2,112)</u>	<u>(1,985)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy Covered-Employee Payroll	\$142,259	\$131,271	\$159,593
Contributions to OPEB as a Percentage of Covered-Employee Payroll	2.15%	1.61%	1.24%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

(2) Includes Surcharge

See accompanying notes to the required supplementary information.

Mound Street Military Careers Academy
Notes to the Required Supplementary Information
For The Year Ended June 30, 2018

Note 1 - SERS Change in Assumptions-Net Pension Liability

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% 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.

Note 2 - STRS Change in Assumptions and Benefit Terms-Net Pension Liability

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, 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% 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

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

Note 3 - SERS Change in Assumptions-Net OPEB Liability

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

Note 4 - STRS Change in Assumptions-Net OPEB Liability

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% 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% to 7.45%. 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% to 1.9% 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.

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Board
Mound Street Military Careers Academy
Dayton, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Mound Street Military Careers Academy , 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, and have issued our report thereon dated December 26, 2018, 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*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 26, 2018

**MOUND STREET MILITARY CAREERS ACADEMY
MONTGOMERY COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2018**

The prior audit report, as of June 30, 2017, included no citations, instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

OHIO AUDITOR OF STATE KEITH FABER



MOUND STREET MILITARY CAREERS ACADEMY

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
FEBRUARY 21, 2019**