

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2018*



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Columbus, Ohio 43215
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Board of Directors
Academy of Educational Excellence
728 Parkside Blvd
Toledo, OH 43607

We have reviewed the *Independent Auditor's Report* of the Academy of Educational Excellence, Lucas County, prepared by Julian & Grube, 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 Academy of Educational Excellence is responsible for compliance with these laws and regulations

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 18, 2020

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**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Academy of Educational Excellence
Lucas County
728 Parkside Blvd.
Toledo, Ohio 43607

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Academy of Educational Excellence, Lucas County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy of Educational Excellence's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during fiscal year 2018, the Academy of Educational Excellence adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the Academy of Educational Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy of Educational Excellence's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 18, 2019

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- In total, the Academy's net position increased \$721,660, from 2017's restated deficit of \$1,101,962 to a deficit of \$380,302.
- The Academy had operating revenues of \$1,108,419 and operating expenses of \$631,975 during fiscal year 2018. The Academy also recognized non-operating revenue of \$248,974 from federal and State grants and entitlements and interest and fiscal charges of \$3,758 during the year.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the Academy perform financially during 2018?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to accounting used by most private-sector companies. This basis of accounting takes into account all current year revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. The change in net position is important because it tells the reader the extent to which the financial position of the Academy as a whole has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

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

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-38 of this report.

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability and net OPEB liability. This required supplementary information can be found on pages 40-53 of this report.

The table below provides a summary of the Academy's net position at June 30, 2018 and June 30, 2017. The 2017 net position was restated as described in Note 3.

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Net Position	
	<u>2018</u>	<u>Restated 2017</u>
<u>Assets</u>		
Current assets	\$ 436,880	\$ 304,571
Non-current assets	<u>80,753</u>	<u>8,632</u>
Total assets	<u>517,633</u>	<u>313,203</u>
<u>Deferred outflows</u>	<u>555,009</u>	<u>258,418</u>
<u>Liabilities</u>		
Current liabilities	293,898	294,759
Long-term liabilities:		
Due within one year	54,178	281,385
Net pension liability	844,530	900,572
Net OPEB liability	<u>199,507</u>	<u>181,314</u>
Total liabilities	<u>1,392,113</u>	<u>1,658,030</u>
<u>Deferred inflows</u>	<u>60,831</u>	<u>15,553</u>
<u>Net Position</u>		
Net investment in capital assets	10,244	(6,297)
Unrestricted (deficit)	<u>(390,546)</u>	<u>(1,095,665)</u>
Total net position (deficit)	<u>\$ (380,302)</u>	<u>\$ (1,101,962)</u>

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Academy adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

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

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$922,620 to a deficit of \$1,101,962.

Over time, net position can serve as a useful indicator of a government’s financial position.

At June 30, 2018, capital assets represented 15.60 percent of total assets. Capital assets are used to provide services to students and are not available for future spending. Capital assets consist of equipment and vehicles.

The table below shows the changes in net position for the fiscal year 2018 and fiscal year 2017. The net position at June 30, 2017 has been restated as described in Note 3.

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Change in Net Position

	2018	Restated 2017
<u>Operating Revenues:</u>		
State foundation	\$ 1,108,286	\$ 916,629
Other	133	14,103
Total operating revenue	1,108,419	930,732
<u>Operating Expenses:</u>		
Salaries and wages	611,110	479,786
Fringe benefits	(176,929)	125,461
Purchased services	122,548	157,935
Materials and supplies	61,129	43,575
Depreciation	14,117	8,893
Total operating expenses	631,975	815,650
<u>Non-Operating Revenues (Expenses):</u>		
Federal and State grants	248,974	242,479
Interest and fiscal charges	(3,758)	(70)
Total non-operating revenues (expenses)	245,216	242,409
Change in net position	721,660	357,491
Net position (deficit) at beginning of year (restated)	(1,101,962)	N/A
Net position (deficit) at end of year	\$ (380,302)	\$ (1,101,962)

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 operating expenses still include OPEB expense of \$1,972 computed under GASB 45. GASB 45 required recognizing OPEB 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 12,180. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	\$ 631,975
Negative OPEB expense under GASB 75	12,180
2018 contractually required contributions	3,905
Adjusted 2018 operating expenses	648,060
Total 2017 operating expenses under GASB 45	815,650
Decrease in operating expenses not related to OPEB	\$ (167,590)

The revenue generated by community Academies is heavily dependent upon the per-pupil allotment determined by the State foundation program and federal entitlement programs. Foundation payments amounted to 81.65 percent of total revenues received during fiscal year 2018.

Operating expenses of the Academy decreased \$183,675 or 22.52%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the Academy reported (\$181,136) in pension expense and (\$12,180) in OPEB expense mainly due to these benefit changes.

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Debt Administration

At June 30, 2018 the Academy had a long term obligation for a capital lease for a bus of \$70,509. See Note 10 in the notes to the basic financial statements for further detail relating to the Academy's long term obligations.

Capital Assets

At June 30, 2018, the Academy had \$80,753 in capital assets, net of accumulated depreciation. The Academy had \$14,117 in depreciation expense and added a bus capital lease for \$86,338 as a capital asset addition. The Academy did not have any capital asset disposals during the year. The Academy's capital assets consist of equipment and vehicles. See Note 11 in the notes to the basic financial statements for further detail relating to the Academy's capital assets.

Current Financial Related Activities

The Academy is reliant upon State Foundation monies and State Grants to offer quality educational services to students.

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

Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Academy of Educational Excellence's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Todd Johnson, Treasurer of the Academy, 728 Parkside Boulevard, Toledo, Ohio 43607.

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**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 432,020
Receivables:	
Intergovernmental.	<u>4,860</u>
Total current assets	<u>436,880</u>
Non-current assets:	
Depreciable capital assets, net	<u>80,753</u>
Total non-current assets.	<u>80,753</u>
Total assets.	<u>517,633</u>
 Deferred outflows of resources:	
Pension.	496,605
OPEB.	<u>58,404</u>
Total deferred outflows of resources	<u>555,009</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	15,905
Accrued wages and benefits	235,184
Pension and postemployment benefits payable.	21,939
Capital lease obligation	16,331
Intergovernmental payable.	<u>4,539</u>
Total current liabilities	<u>293,898</u>
Non-current liabilities:	
Capital lease obligation.	54,178
Net pension liability	844,530
Net OPEB liability	<u>199,507</u>
Total non-current liabilities	<u>1,098,215</u>
Total liabilities	<u>1,392,113</u>
 Deferred inflows of resources:	
Pension.	38,677
OPEB	<u>22,154</u>
Total deferred inflows of resources	<u>60,831</u>
 Net position:	
Net investment in capital assets	10,244
Unrestricted (deficit).	<u>(390,546)</u>
Total net position (deficit).	<u>\$ (380,302)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Operating revenues:	
Foundation revenue	\$ 1,108,286
Other	133
Total operating revenues	<u>1,108,419</u>
 Operating expenses:	
Salaries and wages.	611,110
Fringe benefits.	(176,929)
Purchased services.	122,548
Materials and supplies	61,129
Depreciation	14,117
Total operating expenses.	<u>631,975</u>
Operating income	<u>476,444</u>
 Non-operating revenues (expenses):	
Federal and State operating grants.	248,974
Interest and fiscal charges	(3,758)
Total non-operating revenues (expenses)	<u>245,216</u>
Change in net position	721,660
Net position (deficit) at beginning of year (restated) .	<u>(1,101,962)</u>
Net position (deficit) at end of year	<u><u>\$ (380,302)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Cash received from State foundation	\$ 1,098,069
Cash received from other operations	133
Cash payments for salaries and wages.	(593,895)
Cash payments for fringe benefits	(93,119)
Cash payments for contractual services	(428,675)
Cash payments for materials and supplies	<u>(73,307)</u>
Net cash used in operating activities.	<u>(90,794)</u>
Cash flows from noncapital financing activities:	
Federal and State operating grants.	<u>244,114</u>
Net cash provided by noncapital financing activities.	<u>244,114</u>
Cash flows from capital and related financing activities:	
Interest and fiscal charges	(3,758)
Principal retirement on capital leases	<u>(16,008)</u>
Net cash used in capital and related financing activities.	<u>(19,766)</u>
Net increase in cash and cash equivalents.	133,554
Cash and cash equivalents at beginning of year . . .	<u>298,466</u>
Cash and cash equivalents at end of year	<u><u>\$ 432,020</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 476,444
Adjustments:	
Depreciation	14,117
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Prepayments	6,105
Accounts payable.	(37,110)
Other long-term payable.	(251,968)
Notes payable	(29,138)
Accrued wages and benefits	17,215
Intergovernmental payable	(9,968)
Pension and postemployment benefits payable. . . .	12,671
Net pension liability	(56,042)
Net OPEB liability	18,193
Deferred outflows - pensions	(240,159)
Deferred outflows - OPEB	(56,432)
Deferred inflows - pensions.	23,124
Deferred inflows - OPEB.	<u>22,154</u>
Net cash used in operating activities	<u><u>\$ (90,794)</u></u>

Non-cash transactions:

The Academy entered into a capital lease agreement for a bus in the amount of \$86,238 during fiscal year 2018.
The Academy was forgiven \$154,265 of other-long term payables and \$12,374 of notes payable during fiscal year 2018.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Academy of Educational Excellence (the “Academy”) is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to serve students in grades Kindergarten through 3 and ages 5 through 9. The Academy focuses on literacy and technology. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status. The Academy is nonsectarian in its programs, admission policies, employment practices and all other operations.

The Academy was approved for sponsorship under contract resolution on March 15, 2012 with North Central Ohio Educational Service Center (the “Sponsor”) for a period of five years commencing on July 1, 2012. The sponsor contract was amended and renewed during fiscal year 2017. The term of this contract began on July 1, 2017 and ends on June 30, 2019. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy’s one instructional/support facility staffed by 8 non-certified and 10 certified teaching personnel who provide services to 143 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 as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy’s accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consists of a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a “flow of economic resources” measurement focus. With this measurement focus, all assets and deferred outflows of resources, liabilities, and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

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

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

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

C. Budgetary Process

Unlike traditional public Schools located in the State of Ohio, community academies are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed Academy budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705. The Academy is required to submit a five-year budget forecast with the Ohio Department of Education, c/o Superintendent of Public Instruction.

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, see Notes 6 and 7 for deferred outflows of resources related to the Academy's net pension liability and net OPEB liability, respectively.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, see Notes 6 and 7 for deferred inflows of resources related to the Academy's net pension liability and net OPEB liability, respectively.

E. Cash and Cash Equivalents

All cash received by the Academy is maintained in demand deposit accounts. The Academy did not have any investments during fiscal year 2018.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of \$1,500. The Academy does not possess 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 an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful life:

<u>Description</u>	<u>Estimated Life</u>
Equipment	5 - 10 years
Vehicles	5 - 7 years

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

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

G. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, which includes Economic Disadvantaged Funding and Limited English Proficiency Funding, which are reflected under “state foundation” on the statement of revenues, expenses and changes in net position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

H. Operating Revenues and Expenses

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

I. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

J. Use of Estimates

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed. The Academy had no prepayments as of June 30, 2018.

L. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the Academy has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the Academy's postemployment benefit plan disclosures, as presented in Note 7 to the basic financial statements, and added required supplementary information which is presented on pages 40 - 53.

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

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Academy.

GASB Statement No. 86 improves 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. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A net position restatement is required in order to implement GASB Statement No 75. The net position at July 1, 2017 has been restated as follows:

	Governmental Activities
Net position as previously reported	\$ (922,620)
Deferred outflows - payments subsequent to measurement date	1,972
Net OPEB liability	(181,314)
Restated net position at July 1, 2017	\$ (1,101,962)

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 4 - DEPOSITS

At June 30, 2018, the carrying amount of all Academy deposits was \$432,020. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, the Academy's bank balance was \$454,986, of this \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC). \$204,986 of the Academy's bank balance was exposed to custodial credit risk as discussed below.

Custodial credit risk 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. The Academy has no deposit policy for custodial credit risk.

The Academy had no investments.

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Academy contracted with Citizens Insurance Company for general liability and property insurance and professional liability, and auto.

Coverage is as follows:

Commercial General Liability per occurrence	\$ 1,000,000
Commercial General Liability aggregate	2,000,000
Fire Damage Limit, Any One Fire	500,000
Personal and Advertising Injury Limit	1,000,000
Property Damage	100,000
School and Educators Liability	3,000,000
Business Automobile	1,000,000

Settled claims have not yet exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

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

NOTE 5 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$24,139 for fiscal year 2018. Of this amount, \$1,498 is reported as pension and postemployment benefits payable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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 website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$67,802 for fiscal year 2018. Of this amount, \$17,375 is reported as pension and postemployment benefits payable.

Net Pension Liability

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 Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected 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>
Proportion of the net pension liability prior measurement date	0.00181770%	0.00229299%	
Proportion of the net pension liability current measurement date	<u>0.00347520%</u>	<u>0.00268107%</u>	
Change in proportionate share	<u>0.00165750%</u>	<u>0.00038808%</u>	
Proportionate share of the net pension liability	\$ 207,636	\$ 636,894	\$ 844,530
Pension expense	\$ 18,899	\$ (200,035)	\$ (181,136)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 8,935	\$ 24,590	\$ 33,525
Changes of assumptions	10,738	139,296	150,034
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	74,547	146,558	221,105
Academy contributions subsequent to the measurement date	<u>24,139</u>	<u>67,802</u>	<u>91,941</u>
Total deferred outflows of resources	<u>\$ 118,359</u>	<u>\$ 378,246</u>	<u>\$ 496,605</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 5,133	\$ 5,133
Net difference between projected and actual earnings on pension plan investments	988	21,018	22,006
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	560	10,978	11,538
Total deferred inflows of resources	\$ 1,548	\$ 37,129	\$ 38,677

\$91,941 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ 34,700	\$ 74,546	\$ 109,246
2020	39,164	103,134	142,298
2021	23,650	60,770	84,420
2022	(4,842)	34,865	30,023
Total	\$ 92,672	\$ 273,315	\$ 365,987

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent 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 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 288,144	\$ 207,636	\$ 140,193

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA 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 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

*10-Year 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 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$ 912,966	\$ 636,894	\$ 404,345

NOTE 7 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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.

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

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

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

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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was \$3,011.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$3,905 for fiscal year 2018. Of this amount, \$3,066 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

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.

Net OPEB Liability

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 Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.00205882%	0.00229299%	
Proportion of the net OPEB liability current measurement date	<u>0.00353620%</u>	<u>0.00268107%</u>	
Change in proportionate share	<u>0.00147738%</u>	<u>0.00038808%</u>	
Proportionate share of the net OPEB liability	\$ 94,902	\$ 104,605	\$ 199,507
OPEB expense	\$ 16,775	\$ (28,955)	\$ (12,180)

At June 30, 2018, the Academy 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	\$ -	\$ 6,039	\$ 6,039
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	30,671	17,789	48,460
Academy contributions subsequent to the measurement date	<u>3,905</u>	<u>-</u>	<u>3,905</u>
Total deferred outflows of resources	<u>\$ 34,576</u>	<u>\$ 23,828</u>	<u>\$ 58,404</u>
	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 250	\$ 4,471	\$ 4,721
Changes of assumptions	<u>9,006</u>	<u>8,427</u>	<u>17,433</u>
Total deferred inflows of resources	<u>\$ 9,256</u>	<u>\$ 12,898</u>	<u>\$ 22,154</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

\$3,905 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ 7,787	\$ 1,449	\$ 9,236
2020	7,787	1,449	9,236
2021	5,902	1,449	7,351
2022	(61)	1,450	1,389
2023	-	2,567	2,567
2024	-	2,566	2,566
Total	\$ 21,415	\$ 10,930	\$ 32,345

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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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

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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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

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	<u>100.00 %</u>	

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

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) 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.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	\$ 114,607	\$ 94,902	\$ 79,291
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Academy's proportionate share of the net OPEB liability	\$ 77,006	\$ 94,902	\$ 118,588

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's proportionate share of the net OPEB liability	\$ 140,431	\$ 104,605	\$ 76,291

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 72,675	\$ 104,605	\$ 146,629

NOTE 8 - OPERATING LEASE

The Roman Catholic Diocese of Toledo in America entered into a lease agreement with the North Central Ohio Educational Service Center and the Academy for a term beginning June 1, 2016 and ended on September 30, 2017. This agreement was, in substance, a rental agreement (operating lease) and was classified as purchased services in the financial statements. The Lessees obligation was \$300 per month for June-September 2016 and \$3,000 per month for the remainder of the lease. The lease had two successive options to renew for an additional three years and was renewed for fiscal years 2018 and 2019.

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

A. Copier lease

In a prior fiscal year, the Academy entered into a capital lease for copier equipment. Principal and interest payments made totaled \$279 and \$2, respectively, for fiscal year 2018.

B. Bus lease

During fiscal year 2018, the District entered into a capitalized lease for a bus. Capital assets acquired by lease have been originally capitalized in the amount of \$86,238, which represents the present value of the future minimum lease payments at the time of acquisition. Principal and interest payments in the 2018 fiscal year totaled \$15,729 and \$3,756 respectively.

The capitalized assets acquired through capital leases are as follows:

Asset:	
Bus	\$ 86,238
Less: accumulated depreciation	(8,624)
Total	\$ 77,614

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2018.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 19,485
2020	19,485
2021	19,485
2022	<u>19,485</u>
Total minimum lease payments	77,940
Less: amount representing interest	<u>(7,431)</u>
Total	<u>\$ 70,509</u>

NOTE 10 - LONG-TERM OBLIGATIONS

The long-term obligations at June 30, 2017 have been restated as described in Note 3. The Academy's long-term obligations during the fiscal year consist of the following:

	Restated Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due in One Year
Capital Lease Obligation	\$ 279	\$ 86,238	\$ (16,008)	\$ 70,509	\$ 16,331
Net pension liability	900,572	74,597	(130,639)	844,530	-
Net OPEB liability	181,314	36,218	(18,025)	199,507	-
Other Long-Term Payables	251,968	-	(251,968)	-	-
Notes Payable:					
Ann Harris Superintendent/Founder	16,764	-	(16,764)	-	-
Center for Educational Excellence, Inc.	5,949	-	(5,949)	-	-
Learners for Life Child Development, Inc.	6,410	-	(6,410)	-	-
Allison Cox Co-Founder	<u>15</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>-</u>
Total Notes Payable	<u>29,138</u>	<u>-</u>	<u>(29,138)</u>	<u>-</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 1,363,271</u>	<u>\$ 197,053</u>	<u>\$ (445,778)</u>	<u>\$ 1,114,546</u>	<u>\$ 16,331</u>

See Note 9 for detail on the capital lease obligation.

See Note 6 for detail on the net pension liability.

See Note 7 for detail on the net OPEB liability.

Other Long-Term Liabilities - This amount relates to delayed payment of vendor invoices. Of this amount, \$97,703 was paid and \$154,265 was forgiven during fiscal year 2018.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The Note Payable to Ann Harris was for start-up costs. This amount was repaid during fiscal year 2018.

The Note Payable to the Center for Educational Excellence, Inc., the Learners for Life Child Development, Inc. and Allison Cox are described in Note 14 - Related Parties. These amounts were forgiven during fiscal year 2018.

NOTE 11 - CAPITAL ASSETS

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

	Balance 6/30/17	Additions	Deductions	Balance 06/30/18
Capital assets, being depreciated:				
Equipment	\$ 34,001	\$ -	\$ -	\$ 34,001
Vehicles	14,650	86,238	-	100,888
Total capital assets being depreciated	<u>48,651</u>	<u>86,238</u>	<u>-</u>	<u>134,889</u>
Less: accumulated depreciation				
Equipment	(30,600)	(3,400)	-	(34,000)
Vehicles	(9,419)	(10,717)	-	(20,136)
Total accumulated depreciation	<u>(40,019)</u>	<u>(14,117)</u>	<u>-</u>	<u>(54,136)</u>
Capital assets, net	<u>\$ 8,632</u>	<u>\$ 72,121</u>	<u>\$ -</u>	<u>\$ 80,753</u>

NOTE 12 - CONTRACTS

Sponsor Contract

The Academy entered into a sponsorship contract commencing on July 1, 2017 and ending on June 30, 2019 with North Central Ohio Educational Service Center.

The Sponsor shall carry out the responsibilities established by law, including:

- Provide technical assistance and monitor the Academy's compliance with all laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Report on at least an annual basis the results of the evaluation conducted to the Ohio Department of Education and to the parents/guardians of students enrolled in the Academy;
- Take steps to intervene in the Academy's operation to correct problems in the Academy's overall performance, declare the Academy to be on probationary status pursuant to Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew the contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Develop a plan of action to be undertaken if the Academy experiences financial difficulties or closes prior to the end of the year;
- Evaluate the performance of the Academy according to standards set forth in the Assessment and Accountability Plan;

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - CONTRACTS - (Continued)

- Support the Academy’s establishment and operation as determined to be appropriate by the Sponsor at the Sponsor’s sole discretion;
- Notify the Academy within five business days of complaints or correspondence from the Ohio Department of Education concerning the Academy; and,
- Comply with the procedures for resolving disputes or differences of opinion between it and the Academy as set forth in the Governance and Administrative Plan.

NOTE 13 - PURCHASED SERVICES

For fiscal year 2018, purchased services expenses were payments for services rendered by various vendors, as follows:

Property services	\$ 49,268
Travel/meetings	12,738
Communications	1,299
Contracted services	51,213
Pupil transportation services	<u>8,030</u>
 Total	 <u>\$ 122,548</u>

NOTE 14 - RELATED PARTIES

The Center for Educational Excellence Inc. (the CEE), in which Ann Harris, the Superintendent/founder of the Academy is an Official, was awarded a Port Authority grant and paid development and other expenses, on behalf of the Academy; in which \$5,949 was recorded as notes payable to the CEE by the Academy.

Learners for Life Child Development Center Inc. in which Ann Harris, the Superintendent/founder of the Academy is an Official, paid expenses on behalf of the Academy; in which \$6,410 was recorded as notes payable to Learners for Life Child Development Center by the Academy.

Allison Cox, a Co-founder of the Academy paid for expenses on behalf of the Academy; for which \$15 was recorded as notes payable to Allison Cox by the Academy.

During fiscal year 2018, the Academy paid off, or were forgiven for, the balances on the notes payable to Ann Harris, the Center for Educational Excellence, Inc., Learners for Life Child Development, Inc., and Allison Cox.

NOTE 15 - CONTINGENCIES

A. Grants

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

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

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

NOTE 15 - CONTINGENCIES - (Continued)

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two assembly members from each county in which participating school districts are limited to its representation on the Board. Financial information can be obtained by contacting NOECA, at 219 Howard Drive, Sandusky, Ohio 44870.

REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.00347520%	0.00181770%	0.00183500%	0.00184200%	0.00184200%
Academy's proportionate share of the net pension liability	\$ 207,636	\$ 133,039	\$ 104,707	\$ 93,223	\$ 109,538
Academy's covered payroll	\$ 116,007	\$ 56,450	\$ 55,243	\$ 53,521	\$ 48,526
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	178.99%	235.68%	189.54%	174.18%	225.73%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.00268107%	0.00229299%	0.00235634%	0.00190518%	0.00190518%
Academy's proportionate share of the net pension liability	\$ 636,894	\$ 767,533	\$ 651,223	\$ 463,406	\$ 552,006
Academy's covered payroll	\$ 331,629	\$ 238,921	\$ 245,843	\$ 194,654	\$ 206,300
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	192.05%	321.25%	264.89%	238.07%	267.57%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST SIX FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 24,139	\$ 16,241	\$ 7,903	\$ 7,281
Contributions in relation to the contractually required contribution	<u>(24,139)</u>	<u>(16,241)</u>	<u>(7,903)</u>	<u>(7,281)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 178,807	\$ 116,007	\$ 56,450	\$ 55,243
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

Note: The Academy's first year of operation was 2013; therefore, information prior to 2013 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>
\$ 7,418	\$ 6,716
<u>(7,418)</u>	<u>(6,716)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 53,521	\$ 48,526
13.86%	13.84%

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST SIX FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 67,802	\$ 46,428	\$ 33,449	\$ 34,418
Contributions in relation to the contractually required contribution	<u>(67,802)</u>	<u>(46,428)</u>	<u>(33,449)</u>	<u>(34,418)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 484,300	\$ 331,629	\$ 238,921	\$ 245,843
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

Note: The Academy's first year of operation was 2013; therefore, information prior to 2013 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>
\$ 25,305	\$ 26,819
<u>(25,305)</u>	<u>(26,819)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 194,654	\$ 206,300
13.00%	13.00%

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
Academy's proportion of the net OPEB liability	0.00353620%	0.00205882%
Academy's proportionate share of the net OPEB liability	\$ 94,902	\$ 58,684
Academy's covered payroll	\$ 116,007	\$ 56,450
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.81%	103.96%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
Academy's proportion of the net OPEB liability	0.00268107%	0.00229299%
Academy's proportionate share of the net OPEB liability	\$ 104,605	\$ 122,630
Academy's covered payroll	\$ 331,629	\$ 238,921
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	31.54%	51.33%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 3,905	\$ 1,972	\$ -	\$ 453
Contributions in relation to the contractually required contribution	<u>(3,905)</u>	<u>(1,972)</u>	<u>-</u>	<u>(453)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 178,807	\$ 116,007	\$ 56,450	\$ 55,243
Contributions as a percentage of covered payroll	2.18%	1.70%	0.00%	0.82%

Note: The Academy's first year of operation was 2013; therefore, information prior to 2013 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>
\$ 930	\$ 78
<u>(930)</u>	<u>(78)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 53,521	\$ 48,526
1.74%	0.16%

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 484,300	\$ 331,629	\$ 238,921	\$ 245,843
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

Note: The Academy's first year of operation was 2013; therefore, information prior to 2013 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>
\$ 2,483	\$ 2,063
<u>(2,483)</u>	<u>(2,063)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 194,654	\$ 206,300
1.00%	1.00%

ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) 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 (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients 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 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) 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), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) 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 and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

Academy of Educational Excellence
Lucas County
728 Parkside Blvd.
Toledo, Ohio 43607

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Academy of Educational Excellence, Lucas County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy of Educational Excellence's basic financial statements and have issued our report thereon dated December 18, 2019, wherein we noted as discussed in Note 3, the Academy of Educational Excellence adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 18, 2019

**ACADEMY OF EDUCATIONAL EXCELLENCE
LUCAS COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

Finding Number	Year Initially Occurred	Finding Summary	Status	Additional Information
2017-001	2017	<u>Significant Deficiency – Financial Statement Presentation</u> – In general, an accounting and information system should be designed to provide the Board of Education with accurate and timely information to enable well-informed business decisions to be made. An audit adjustment was made to the financial statements for the fiscal year ending June 30, 2017, to properly state financial statement amounts.	Corrected	N/A

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OHIO AUDITOR OF STATE KEITH FABER



ACADEMY FOR EDUCATIONAL EXCELLENCE

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 3, 2020**