

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY, OHIO**

*(AUDITED)*

**BASIC FINANCIAL STATEMENTS**

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015*

**MICHAEL ASHMORE, TREASURER**





# Dave Yost • Auditor of State

Board Members  
Hamilton County Mathematics and Science Academy  
2675 Civic Center Drive  
Cincinnati, Ohio 45231

We have reviewed the Independent Auditor's Report of the Hamilton County Mathematics and Science Academy, Hamilton County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 Hamilton County Mathematics and Science Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 6, 2016

**This page intentionally left blank.**

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	4 - 8
Basic Financial Statements:	
Statement of Net Position .....	9
Statement of Revenues, Expenses and Changes in Net Position .....	10
Statement of Cash Flows .....	11
Notes to the Basic Financial Statements.....	12 - 26
Required Supplementary Information:	
Schedule of the Academy’s Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio .....	27
State Teachers Retirement System (STRS) of Ohio .....	27
Schedule of Academy Contributions:	
School Employees Retirement System (SERS) of Ohio .....	28
State Teachers Retirement System (STRS) of Ohio .....	28
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	29 - 30
Schedule of Findings and Responses.....	31
Status of Prior Audit Findings .....	32



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Hamilton County Mathematics and Science Academy  
Hamilton County  
2675 Civic Center Drive  
Cincinnati, Ohio 45231

To the Board of Governors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Hamilton County Mathematics and Science Academy, Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hamilton County Mathematics and Science Academy's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hamilton County Mathematics and Science Academy, Hamilton County, Ohio, as of June 30, 2015, 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 14 to the financial statements, during the fiscal year ended June 30, 2015, the Hamilton County Mathematics and Science Academy adopted the provisions of Governmental Accounting Standard No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 and No. 71, "Pension Transition for Contributions Made Subsequent to the Measure Date – an Amendment of GASB Statement No. 68. 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 liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2016, on our consideration of the Hamilton County Mathematics and Science Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hamilton County Mathematics and Science Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
April 13, 2016

THIS PAGE INTENTIONALLY LEFT BLANK

## Hamilton County Mathematics and Science Academy

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)*

---

The discussion and analysis of Hamilton County Mathematics and Science Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2015. 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 statement and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2015 are as follows:

- Total net position increased \$177,513 during fiscal year 2015, which represents a 4% increase from the prior year.
- Total assets decreased \$49,123, which represents a 2% decrease from the prior year.
- Total liabilities decreased \$953,759, which represents a 14% decrease from the prior year.
- The Academy reported an operating loss of \$326,866 for fiscal year 2015. There was an increase in operating revenues of \$281,629 and an increase in operating expenses of \$354,590.

### **Using this Financial Report**

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

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

The view of the Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The statement of net position and the statement of revenue, expenses and changes in net position answer this question. These statements include all assets, liabilities, deferred inflows/outflows of resources, revenues, and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. This change in net position is important because it tells the reader whether, for the Academy as a whole, the financial position has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net position at June 30, 2015 as compared to June 30, 2014.

**Hamilton County Mathematics and Science Academy**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*(Unaudited)*

Table 1  
Net Position

	2015	2014*
<i>Assets</i>		
Current and Other Assets	\$192,498	\$392,588
Capital Assets, Net	2,045,815	1,894,848
Total Assets	2,238,313	2,287,436
<i>Deferred Outflows of Resources</i>	390,148	277,132
<i>Liabilities</i>		
Current Liabilities	359,818	1,643,796
Long-Term Liabilities	5,745,956	5,415,707
Total Liabilities	6,105,774	7,059,503
<i>Deferred Inflows of Resources</i>	840,109	0
<i>Net Position</i>		
Net Investment in Capital Assets	820,874	624,457
Restricted	144,571	0
Unrestricted (Deficit)	(5,282,867)	(5,119,392)
Total Net Position	(\$4,317,422)	(\$4,494,935)

\*As restated. See note 14 of the notes to the basic financial statements for more information.

Total assets decreased by \$49,123. This decrease was primarily due to a decrease in cash and cash equivalents of \$339,087, which was partially offset by increases in intergovernmental receivables of \$145,697 and capital assets, net of \$150,967. Deferred outflows of resources increased \$113,016 due to an increase between years for payments made subsequent to the measurement dates of the net pension liability. Total liabilities decreased \$953,759 primarily due to a decrease in net pension liability estimates. Deferred inflows of resources increased by \$840,109 due to the new implementation of GASB 68, as further discussed below and in note 14 of the notes to the basic financial statements.

During 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

**Hamilton County Mathematics and Science Academy**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)*

---

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

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

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014 from \$643,640 to (\$4,494,935).

Table 2 shows the changes in net position for fiscal years 2015 and 2014.

Table 2  
Change in Net Position

	2015	2014
<i>Operating Revenues</i>		
Foundation Payments	\$3,824,644	\$3,581,334
Tuition and Fees	0	11,747
Charges for Services	12,650	66,415
Other Operating Revenues	104,142	311
Total Operating Revenues	3,941,436	3,659,807

**Hamilton County Mathematics and Science Academy**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*(Unaudited)*

Table 2  
Change in Net Position  
(Continued)

	2015	2014
<i>Operating Expenses</i>		
Salaries	\$2,321,548	\$2,101,932
Fringe Benefits	547,748	590,696
Purchased Services	816,018	852,047
Materials and Supplies	350,748	177,114
Depreciation	92,525	104,061
Other Operating Expenses	139,715	87,862
Total Operating Expenses	<u>4,268,302</u>	<u>3,913,712</u>
<i>Operating Loss</i>	(326,866)	(253,905)
<i>Nonoperating Revenues (Expenses)</i>		
Interest Revenue	42	58
Intergovernmental	594,194	495,951
Interest Expense	(89,857)	(80,289)
Net Nonoperating Revenues (Expenses)	<u>504,379</u>	<u>415,720</u>
<i>Change in Net Position</i>	177,513	161,815
<i>Net Position, Beginning of Year-Restated</i>	(4,494,935)	N/A
<i>Net Position, End of Year</i>	<u>(\$4,317,422)</u>	<u>(\$4,494,935)</u>

Operating revenues increased \$281,629 or 8% from the prior fiscal year. The increase was primarily the result of an increase in foundation payment revenues from the prior year due to increased FTE enrollment of 41.29 from the prior fiscal year. Total operating expenses increased \$354,590 or 9% from the prior fiscal year. The increase in expenses was due to the Academy's additional services required due to the increase in student enrollment. Nonoperating revenues from intergovernmental grants increased \$98,243 from the prior fiscal year which is also directly related to the increase in student enrollment.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$277,132 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$347,317. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 expenses under GASB 68	\$4,358,159
Pension expense under GASB 68	(218,091)
2015 contractually required contribution	<u>347,317</u>
Adjusted 2015 expenses	4,487,385
Total 2014 expenses under GASB 27	<u>3,994,001</u>
Increase in expenses not related to pension	<u>\$493,384</u>

**Hamilton County Mathematics and Science Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

---

**Capital Assets**

At the end of fiscal year 2015, the Academy had \$2,045,815 invested in land, a building, building improvements, and equipment, which represented an increase of \$150,967 from the prior fiscal year. Table 3 shows capital assets, net of accumulated depreciation at June 30, 2015 as compared to June 30, 2014:

Table 3  
 Capital Assets at June 30,  
 (Net of Accumulated Depreciation)

	2015	2014
Land	\$180,000	\$180,000
Construction in Progress	0	31,842
Building	1,397,348	1,438,446
Building Improvements	352,040	189,135
Equipment	116,427	55,425
Total	\$2,045,815	\$1,894,848

For more information on capital assets, see note 4 of the notes to the basic financial statements.

**Debt**

At June 30, 2015, the Academy had \$1,255,884 in debt outstanding, all of which is due within one year. Table 4 summarizes outstanding debt.

Table 4  
 Outstanding Debt at June 30,

	2015	2014
Mortgage Loan Payable	\$1,224,941	\$1,264,494
Commercial Note Payable	24,997	31,320
Total	\$1,249,938	\$1,295,814

For more information on debt, see note 10 of the notes to the basic financial statements.

**Contacting the Academy's Financial Management**

This financial report is designed to provide a general overview of the Hamilton County Mathematics and Science Academy finances and to show the Academy's accountability for the money it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or request for additional financial information should be directed to Hamilton County Mathematics and Science Academy, 2675 Civic Center Drive, Cincinnati, Ohio 45231.

**Hamilton County Mathematics and Science Academy**  
*Statement of Net Position*  
*June 30, 2015*

<b>Assets</b>	
<i>Current Assets</i>	
Cash and Cash Equivalents	\$26,572
Intergovernmental Receivable	<u>165,926</u>
Total Current Assets	192,498
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	180,000
Depreciable Capital Assets, Net	<u>1,865,815</u>
Total Noncurrent Assets	<u>2,045,815</u>
<i>Total Assets</i>	2,238,313
<b>Deferred Outflows of Resources</b>	
Pension	390,148
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	28,079
Accrued Wages Payable	234,602
Intergovernmental Payable	33,767
Notes Payable	24,997
Mortgage Payable	<u>38,373</u>
<i>Total Current Liabilities</i>	359,818
<i>Noncurrent Liabilities</i>	
Mortgage Payable	1,186,568
Net Pension Liability	<u>4,559,388</u>
<i>Total Noncurrent Liabilities</i>	<u>5,745,956</u>
<i>Total Liabilities</i>	6,105,774
<b>Deferred Inflows of Resources</b>	
Pension	840,109
<b>Net Position</b>	
Net Investment in Capital Assets	820,874
Restricted For:	
Other Purposes	144,571
Unrestricted (Deficit)	<u>(5,282,867)</u>
<i>Total Net Position</i>	<u><u>(\$4,317,422)</u></u>

See the accompanying notes to the basic financial statements.

**Hamilton County Mathematics and Science Academy**  
*Statement of Revenues, Expenses and Changes in Net Position*  
*For the Fiscal Year Ended June 30, 2015*

---

<b>Operating Revenues</b>	
Foundation Payments	\$3,824,644
Charges for Services	12,650
Other Operating Revenues	<u>104,142</u>
<i>Total Operating Revenues</i>	3,941,436
<b>Operating Expenses</b>	
Salaries	2,321,548
Fringe Benefits	547,748
Purchased Services	816,018
Materials and Supplies	350,748
Depreciation	92,525
Other Operating Expenses	<u>139,715</u>
<i>Total Operating Expenses</i>	<u>4,268,302</u>
<i>Operating Loss</i>	(326,866)
<b>Nonoperating Revenues (Expenses)</b>	
Interest Revenue	42
Intergovernmental	594,194
Interest Expense	<u>(89,857)</u>
<i>Net Nonoperating Revenues (Expenses)</i>	<u>504,379</u>
<i>Change in Net Position</i>	177,513
<i>Net Position, Beginning of Year-Restated</i>	<u>(4,494,935)</u>
<i>Net Position, End of Year</i>	<u><u>(\$4,317,422)</u></u>

See the accompanying notes to the basic financial statements.

**Hamilton County Mathematics and Science Academy**

*Statement of Cash Flows*

*For the Fiscal Year Ended June 30, 2015*

---

**Change in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from State Foundation	\$3,770,845
Cash Received from Charges for Services	12,650
Cash Received from Other Operating Revenues	110,842
Cash Payments for Personal Services	(3,008,816)
Cash Payments for Purchased Services	(847,706)
Cash Payments for Materials and Supplies	(336,023)
Cash Payments for Other Expenses	<u>(141,355)</u>

*Net Cash Used for Operating Activities* (439,563)

**Cash Flows from Noncapital Financing Activities**

Cash Received from Grants	<u>502,296</u>
---------------------------	----------------

*Net Cash Provided by Noncapital Financing Activities* 502,296

**Cash Flows from Capital and Related Financing Activities**

Acquisition of Capital Assets	(266,129)
Principal Paid on Debt Obligations	(45,876)
Interest Paid on Debt Obligations	<u>(89,857)</u>

*Net Cash Used for Capital and Related Financing Activities* (401,862)

**Cash Flows from Investing Activities**

Interest	<u>42</u>
----------	-----------

*Net Cash Provided by Noncapital Financing Activities* 42

*Net Change in Cash and Cash Equivalents* (339,087)

*Cash and Cash Equivalents, Beginning of Year* 365,659

*Cash and Cash Equivalents, End of Year* \$26,572

**Reconciliation of Operating Loss to Net Cash Used for Operating Activities**

Operating Loss	(\$326,866)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	92,525
Change in Liabilities and Deferred Inflows/Outflows of Resources:	
Decrease in Accounts Receivable	6,700
Increase in Intergovernmental Receivable	(53,799)
Increase in Deferred Outflows of Resources	(113,016)
Decrease in Accounts Payable	(18,603)
Increase in Accrued Wages and Benefits Payable	1,558
Decrease in Intergovernmental Payable	(11,852)
Decrease in Net Pension Liability	(856,319)
Increase in Deferred Inflows of Resources	<u>840,109</u>

*Net Cash Used for Operating Activities* (\$439,563)

**Noncash Transactions**

Capital Acquisitions Attributed to Accounts Payable	<u>\$9,205</u>
---	----------------

Total Noncash Transactions \$9,205

See the accompanying notes to the basic financial statements.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**Note 1 – Description of the Reporting Entity**

Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through grade eight. The Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001. However, the Ohio State Board of Education subsequently decided to suspend its sponsorship of community schools and the Academy obtained Lucas County Educational Service Center as its sponsor for the school year beginning July 1, 2005. Lucas County Educational Service Center was replaced by Educational Resource Consultants of Ohio Inc. as the Academy's sponsor in January 2006. Educational Resource Consultants of Ohio Inc. continued as the Academy's sponsor through the fiscal year.

The Academy operates under the direction of a five-member Board of Governors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's one instructional/support facility staffed by 34 full-time teaching personnel who provided services to 585 FTE students.

**Note 2 – Summary of Significant Accounting Policies**

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

**Basis of Presentation**

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The Academy uses enterprise accounting to maintain its financial records. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

**Measurement Focus and Basis of Accounting**

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

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

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.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

Expenses are recognized at the time they are incurred.

**Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a formal budgetary process for the Academy; therefore, no budgetary information is presented in the financial statements.

**Cash and Cash Equivalents**

All monies received by the Academy are maintained in demand deposit accounts. For internal accounting purposes, the Academy segregates its cash into separate funds. Total cash is presented as “cash and cash equivalents” on the accompanying statement of net position.

**Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. 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.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Building	40 years
Building improvements	15 years
Equipment	5 years

**Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. 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. Net position restricted for other purposes represents amounts restricted for federal and state grant programs. The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily foundation payments and certain charges to students recorded as tuition and fees or charges for services. Operating expenses are necessary costs incurred to provide the goods or services that occur in carrying out the primary activity of the Academy, including depreciation.

Nonoperating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various intergovernmental grants, interest revenue and interest expense comprise the nonoperating revenues and expenses of the Academy.

**Accrued Liabilities Payable**

The Academy has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2015, including:

*Wages Payable* – Salary payments made after year-end that were for services rendered in fiscal year 2015. Teaching personnel are paid in 24 equal installments, ending with the first pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2015 for all salary payments made to teaching personnel during the months of July and beginning of August 2015.

*Intergovernmental payable* – Payments made for the employer's share of the retirement contribution (\$28,686), associated with services rendered during fiscal year 2015, but that were not paid until the subsequent fiscal year are the major expense in this category.

**Federal Tax Exemption Status**

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

**Estimates**

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

**Pensions**

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy reports deferred outflows of resources in the statement of net position for amounts related to pensions, which will be further discussed in note 7.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

In addition to liabilities, the statement of net position will sometimes 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, deferred inflows of resources include amounts related to pensions, which will be further discussed in note 7.

**Note 3 - Deposits**

At June 30, 2015, the carrying amount of the Academy's deposits was \$26,572 and the bank balance was \$128,459. The entire bank balance was covered by the Federal Depository Insurance Corporation (FDIC).

**Note 4 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015:

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
<i>Capital assets not being depreciated:</i>				
Land	\$180,000	\$0	\$0	\$180,000
Construction in progress	31,842	0	(31,842)	0
Total capital assets not being depreciated	211,842	0	(31,842)	180,000
<i>Capital assets being depreciated:</i>				
Building	1,643,937	0	0	1,643,937
Building improvements	261,532	185,607	0	447,139
Equipment	369,976	89,727	0	459,703
Total capital assets being depreciated	2,275,445	275,334	0	2,550,779
<i>Less accumulated depreciation</i>				
Building	(205,491)	(41,098)	0	(246,589)
Building improvements	(72,397)	(22,702)	0	(95,099)
Equipment	(314,551)	(28,725)	0	(343,276)
Total accumulated depreciation	(592,439)	(92,525)	0	(684,964)
Total capital assets being depreciated, net	1,683,006	182,809	0	1,865,815
Total capital assets, net	\$1,894,848	\$182,809	(\$31,842)	\$2,045,815

**Note 5 - Receivables**

Receivables at June 30, 2015 primarily consist of intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

State Foundation	\$53,799
Title VI-B Grant	8,597
Title I Grant	94,722
Title II-A Grant	8,808
Total	<u>\$165,926</u>

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**Note 6 – Risk Management**

**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. For fiscal year 2015, the Academy contracted with Philadelphia Insurance Company for general liability coverage of \$3 million, automobile liability coverage of \$1 million, and umbrella coverage of \$2 million.

There has been no significant change in insurance coverage from the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**Worker’s 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 7 – Defined Benefit Pension Plans**

**Net Pension Liability**

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

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

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

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

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

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Plan Description - School Employees Retirement System (SERS)**

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$84,616 for fiscal year 2015.

**Plan Description - State Teachers Retirement System (STRS)**

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

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$262,701 for fiscal year 2015.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$952,216	\$3,607,172	\$4,559,388
Proportion of the Net Pension Liability	0.01881499%	0.01483001%	
Pension Expense	\$55,998	\$162,093	\$218,091

At June 30, 2015, 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>
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$8,104	\$34,727	\$42,831
Academy contributions subsequent to the measurement date	<u>84,616</u>	<u>262,701</u>	<u>347,317</u>
Total Deferred Outflows of Resources	<u>\$92,720</u>	<u>\$297,428</u>	<u>\$390,148</u>
<i>Deferred Inflows of Resources</i>			
Net difference between projected and actual earnings on pension plan investments	\$154,547	\$667,340	\$821,887
Difference between Academy contributions and proportionate share of contributions	<u>1,109</u>	<u>17,113</u>	<u>18,222</u>
Total Deferred Inflows of Resources	<u>\$155,656</u>	<u>\$684,453</u>	<u>\$840,109</u>

\$347,317 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$36,888)	(\$162,432)	(\$199,320)
2017	(36,888)	(162,432)	(199,320)
2018	(36,888)	(162,431)	(199,319)
2019	<u>(36,888)</u>	<u>(162,431)</u>	<u>(199,319)</u>
Total	<u>(\$147,552)</u>	<u>(\$649,726)</u>	<u>(\$797,278)</u>

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

**Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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:

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

Asset Class	Target		Long-Term Expected	
	Allocation		Real Rate of Return	
Cash	1.00	%	0.00	%
US Stocks	22.50		5.00	
Non-US Stocks	22.50		5.50	
Fixed Income	19.00		1.50	
Private Equity	10.00		10.00	
Real Assets	10.00		5.00	
Multi-Asset Strategies	15.00		7.50	
<b>Total</b>	<b>100.00</b>	<b>%</b>		

*Discount Rate* The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 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 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$1,358,529	\$952,216	\$610,471

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014 valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
<b>Total</b>	<b>100.00 %</b>	

*Discount Rate* The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

*Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$5,164,060	\$3,607,172	\$2,290,569

**Note 8 – Postemployment Benefits**

**School Employees Retirement System**

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers a post-employment benefit plan.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2015, the health care allocation was 0.82 percent. 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. By statute 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 2015, the minimum compensation level was established at \$20,450. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ending June 30, 2015, 2014, and 2013 were \$5,264, \$808, and \$7,104, respectively.

The SERS Retirement Board establishes 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 upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial report of SERS' Health Care plan is included in its comprehensive annual financial report. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

**State Teachers Retirement System**

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent comprehensive annual financial report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2015. For the years ended June 30, 2014 and 2013, 1 percent of covered payroll was allocated to post-employment health care. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled \$0, \$16,760, and \$14,128, for fiscal years 2015, 2014 and 2013, respectively.

**Note 9 – Other Employee Benefits**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Governors. Administrators and classified staff earn up to ten days of vacation per year, depending upon the position, schedule hours, and length of service.

Each full-time employee receives three personal days per calendar year. Personal days not used at the end of the calendar year are lost.

Each full-time employee can earn sick leave up to a maximum of 15 days.

**Insurance Benefits**

The Academy provides health and life insurance to all employees through a private carrier.

**Note 10 - Long-Term Obligations**

The changes in the Academy’s long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/14*	Additions	Reductions	Principal Outstanding 6/30/15	Amount Due Within One Year
Mortgage Loan-PNC Bank	\$1,264,494	\$0	(\$39,553)	\$1,224,941	\$38,373
Commercial Note-Fifth Third Bank	31,320	0	(6,323)	24,997	24,997
Net Pension Liability	5,415,707	0	(856,319)	4,559,388	0
Total	<u>\$6,711,521</u>	<u>\$0</u>	<u>(\$902,195)</u>	<u>\$5,809,326</u>	<u>\$63,370</u>

\*As restated. See note 14 for additional information.

The Academy purchased a building (located at 2675 Civic Center Drive, Cincinnati, Ohio) in March 2010 for \$1,800,000 through PNC Bank with a \$1,440,000 mortgage, 60 month note at 6% containing a balloon payment in March 2015. The Academy requested and received an extension to pay through June 28, 2015. As of June 30, 2015, the Academy was in negotiations with PNC Bank for refinancing the balloon payment amount due and on August 7, 2015, an amended and restated term note was executed.

During fiscal year 2012, the Academy entered into a commercial loan/revolving note arrangement with Fifth Third Bank for \$50,000. Terms are for a floating interest rate per annum equal to a certain percentage over the prime rate not to be less than 4.25%. The balance as of June 30, 2015 was \$24,997.

Obligations related to employee compensation will be paid from the program benefitting from their service.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**Note 11 - Contingencies**

**Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2015.

**State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure community schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of the fiscal year 2015 review resulted in the Academy being owed \$53,799 by the Ohio Department of Education. This amount has been reported as an intergovernmental receivable in the accompanying financial statements.

**Note 12 – Purchased Services**

For the fiscal year ended June 30, 2015, purchased services expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$276,820
Property Services	156,843
Communications	44,512
Utilities	98,635
Food Service	172,960
Other	66,248
Total Purchased Services	<u>\$816,018</u>

**Note 13 – Subsequent Event**

In November 2015, the Academy refinanced its mortgage through Foundation Bank. The Academy is required to make monthly payments of \$9,333 commencing on December 10, 2015 for a five year period with a final installment of \$900,527 due at that time.

**Note 14 – Implementation of New Accounting Pronouncements and Restatement of Beginning Balances**

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27,” and GASB Statement No 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

**Hamilton County Mathematics and Science Academy**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

The implementation of these pronouncements had the following effect on net position as reported at June 30, 2014:

Net Position June 30, 2014	\$643,640
Adjustments:	
Net Pension Liability	(5,415,707)
Deferred Outflows-Payments Subsequent to Measurement Date	<u>277,132</u>
Restated Net Position June 30, 2014	<u><u>(\$4,494,935)</u></u>

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Hamilton County Mathematics and Science Academy**  
*Required Supplementary Information*  
*Schedule of the Academy's Proportionate Share of the Net Pension Liability*  
*Last Two Fiscal Years (1)*

	2013	2014
<i>State Teachers Retirement System</i>		
Academy's proportion of the net pension liability	0.01483001%	0.01483001%
Academy's proportionate share of the net pension liability	\$4,296,840	\$3,607,172
Academy's covered-employee payroll	\$1,644,046	\$1,556,246
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.357626%	231.786725%
Plan fiduciary net position as a percentage of the total pension liability	69.296426%	74.707076%
<i>School Employees Retirement System</i>		
Academy's proportion of the net pension liability	0.01881499%	0.01881499%
Academy's proportionate share of the net pension liability	\$1,118,867	\$952,216
Academy's covered-employee payroll	\$585,036	\$539,827
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	191.247506%	176.392860%
Plan fiduciary net position as a percentage of the total pension liability	65.520824%	71.697842%

(1) Information prior to 2013 is not available.

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

**Hamilton County Mathematics and Science Academy**  
*Required Supplementary Information*  
*Schedule of Academy Contributions*  
*Last Ten Fiscal Years*

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>State Teachers Retirement System</i>										
Contractually required contribution	\$71,211	\$120,837	\$173,000	\$137,868	\$177,925	\$228,408	\$204,028	\$213,726	\$202,312	\$262,701
Contributions in relation to the contractually required contribution	71,211	120,837	173,000	137,868	177,925	228,408	204,028	213,726	202,312	262,701
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Academy's covered-employee payroll	\$547,777	\$929,515	\$1,330,769	\$1,060,523	\$1,368,654	\$1,756,985	\$1,569,446	\$1,644,046	\$1,556,246	\$1,876,436
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%
<i>School Employees Retirement System</i>										
Contractually required contribution	\$34,425	\$68,271	\$80,655	\$63,076	\$65,027	\$67,332	\$74,082	\$80,969	\$74,820	\$84,616
Contributions in relation to the contractually required contribution	34,425	68,271	80,655	63,076	65,027	67,332	74,082	80,969	74,820	84,616
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Academy's covered-employee payroll	\$248,736	\$493,288	\$582,767	\$455,751	\$469,848	\$486,503	\$535,275	\$585,036	\$539,827	\$642,003
Contributions as a percentage of covered-employee payroll	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.86%	13.18%



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

Hamilton County Mathematics and Science Academy  
Hamilton County  
2675 Civic Center Drive  
Cincinnati, Ohio 45231

To the Board of Governors:

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 Hamilton County Mathematics and Science Academy, Hamilton County, (the Academy) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 13, 2016, wherein we noted in Note 14, the Hamilton County Mathematics and Science Academy adopted the provisions of Governmental Accounting Standard No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 and No. 71, "Pension Transition for Contributions Made Subsequent to the Measure Date – an Amendment of GASB Statement No. 68.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider material weakness. We consider finding 2015-001 to be a material weakness.

Board of Governors  
Hamilton County Mathematics and Science Academy

***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed one instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2015-002.

***Hamilton County Mathematics and Science Academy's Response to Findings***

The Academy's responses to the findings identified in our engagement are described in the accompanying schedule of findings and responses. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



Julian & Grube, Inc.  
April 13, 2016

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2015-001

**Material Weakness - Debt**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Academy did not properly classify the refinance of their mortgage as current and noncurrent liabilities at June 30, 2015.

The Academy has corrected the financial statements.

Failure to accurately report financial activity can result in inaccurate financial statements. The Academy should implement an effective monitoring control system to assist management in detecting material misstatements in financial or other information.

Client Response: The Treasurer will conduct a more thorough review of the financial statements.

Finding Number	2015-002
----------------	----------

**Noncompliance**

Per Ohio Revised Code Section 117.38, entities filing on a GAAP-basis must file annual reports within 150 days of their fiscal year end. The Academy consults with a firm to prepare its financial statements; however, the final documentation to complete that process was not received until April 12, 2016, four months beyond the deadline for filing the financial report with the Auditor of State's Office.

There were constant delays in receiving timely and current financial information. This could significantly impact management's ability to effectively guide the Academy. Critical areas such as financial analysis could be negatively impacted.

We recommend the Academy management take a more active role in overseeing the financial reporting process. We further recommend that they evaluate steps necessary to ensure financial reports are issued in a timely manner. This will help ensure that reports are submitted as required.

Client's Response: The Treasurer is aware of the requirements and is making an effort to be more timely for fiscal year 2016.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u></b>
2014-001	<u>Material Weakness</u> - The Academy did not accurately classify debt outstanding at June 30, 2014.	No	Repeated as finding 2015-001



# Dave Yost • Auditor of State

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**

**HAMILTON 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  
JUNE 16, 2016**