



Dave Yost • Auditor of State

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Alliance Academy of Cincinnati
Hamilton County
1712 Duck Creek Road
Cincinnati, Ohio 45207

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alliance Academy of Cincinnati, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance Academy of Cincinnati, Hamilton County, Ohio, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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.

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2017

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

The discussion and analysis of Alliance Academy of Cincinnati's (the "Academy") financial performance provides an overall review of the Academy's financial activities through June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. It should be read in conjunction with the financial statements and notes to the financial statements, which immediately follow this section, to enhance understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, issued June, 1999.

Financial Highlights

For the fiscal year ended June 30, 2016, total assets were \$126,774, deferred outflows of resources were \$1,008,079, total liabilities were \$5,088,242, deferred inflows of resources were \$333,536, and total net position was (\$4,286,925).

Using this Financial Report

This report consists of the MD&A, the financial statements, and notes to those statements. The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net position — the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position — as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position — as reported in the statement of net position — are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net position and the statement of revenues, expenses, and changes in net position report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities. The Academy has entered into a services agreement (the "Agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the Agreement, NHA also provides the facility in which the Academy operates. Under the terms of the Agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

The table below provides a summary of the Academy's net position for fiscal years ended June 30:

	2016	2015
Assets:		
Current assets	\$ 124,007	\$ 240,198
Capital assets, net of accumulated depreciation	<u>2,767</u>	<u>4,292</u>
Total assets	126,774	244,490
Deferred outflows of resources:		
Pension system	<u>1,008,079</u>	<u>295,280</u>
Liabilities:		
Current liabilities	110,543	219,510
Net pension liability	<u>4,977,699</u>	<u>3,817,972</u>
Total liabilities	5,088,242	4,037,482
Deferred inflows of resources:		
Pension system	<u>333,536</u>	<u>696,909</u>
Net position :		
Net investment in capital assets	2,767	4,292
Restricted - School Service Fund	3,048	8,666
Unrestricted	<u>(4,292,740)</u>	<u>(4,207,579)</u>
Total net position	<u>\$ (4,286,925)</u>	<u>\$ (4,194,621)</u>

The unrestricted net position represent the accumulated results of the Academy's operations to date. These assets can be used to finance day-to day-operations without constraints, such as legislative or legal requirements. The results of the current-year operations for the Academy as a whole are reported in the statement of revenues, expenses, and changes in net position, which shows the change in net position.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

Statement of Revenues, Expenses, and Changes in Net Position

The table below shows the changes in net position as well as a listing of revenues and expenses for the fiscal years ending June 30:

	2016	2015
Operating revenues:		
Foundation payments	\$ 3,350,522	\$ 3,442,705
Food services	52	11
Other revenues	<u>71,563</u>	<u>61,354</u>
Total operating revenues	3,422,137	3,504,070
Operating expenses:		
Contracted service fee	5,659,820	5,869,501
Pension system recharacterization	83,555	(88,133)
Depreciation	1,525	1,525
Expenses of the Board of Directors	<u>36,607</u>	<u>39,690</u>
Total operating expenses	5,781,507	5,822,583
Operating loss	<u>(2,359,370)</u>	<u>(2,318,513)</u>
Nonoperating revenues:		
Federal grants	860,198	784,038
State grants	6,896	7,352
Private sources—NHA	<u>1,399,972</u>	<u>1,617,708</u>
Total nonoperating revenues	<u>2,267,066</u>	<u>2,409,098</u>
Change in net position	<u>\$ (92,304)</u>	<u>\$ 90,585</u>

As reported in the statement of revenues, expenses, and changes in net position, the cost of business activities was \$5,781,507. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. *Revenues Non-operating – Private sources – NHA* represent a contribution granted by NHA for the excess of the Academy expenses over public revenues available.

The Academy experienced an decrease in net position of \$92,304 in 2016. The primary reason for the change in net position is the recharacterization of pension funding and the timing of Board discretionary expenditures. Under the terms of the Agreement, NHA provides a spending account to the Board of Directors for discretionary expenditures.

Capital Assets

At June 30, 2016, the Academy had \$2,767 invested in capital assets from, primarily other equipment. Capital assets are substantially provided as part of the agreement with NHA.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2017.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Suite 201, Grand Rapids, MI 49512.

ALLIANCE ACADEMY OF CINCINNATI

STATEMENT OF NET POSITION

JUNE 30, 2016

CURRENT ASSETS:

Cash	\$	10,450
Intergovernmental receivables		<u>113,557</u>
Total current assets		<u>124,007</u>

NON-CURRENT ASSETS:

Capital assets		15,254
Less accumulated depreciation		<u>(12,487)</u>
Total non-current assets		<u>2,767</u>
Total assets		<u>126,774</u>

DEFERRED OUTFLOWS OF RESOURCES:

Pension system		<u>1,008,079</u>
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CURRENT LIABILITIES:

Unearned revenue		68
Contracted service fee payable		<u>110,475</u>
Total current liabilities		<u>110,543</u>

NON-CURRENT LIABILITIES:

Net pension liability		<u>4,977,699</u>
Total liabilities		<u>5,088,242</u>

DEFERRED INFLOWS OF RESOURCES:

Pension system		<u>333,536</u>
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NET POSITION :

Net investment in capital assets		2,767
Restricted - School Service Fund		3,048
Unrestricted		<u>(4,292,740)</u>

TOTAL NET POSITION	\$	<u><u>(4,286,925)</u></u>
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See notes to financial statements.

ALLIANCE ACADEMY OF CINCINNATI

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2016

OPERATING REVENUES:	
Foundation payments	\$ 3,350,522
Food services	52
Other revenues	<u>71,563</u>
Total operating revenues	<u>3,422,137</u>
OPERATING EXPENSES:	
Contracted service fee	5,659,820
Pension system recharacterization	83,555
Depreciation	1,525
Expenses of the Board of Directors	<u>36,607</u>
Total operating expenses	<u>5,781,507</u>
OPERATING LOSS	<u>(2,359,370)</u>
NONOPERATING REVENUES:	
Federal grants	860,198
State grants	6,896
Private sources — NHA	<u>1,399,972</u>
Total nonoperating revenue	<u>2,267,066</u>
CHANGE IN NET POSITION	(92,304)
NET POSITION — Beginning of year	<u>(4,194,621)</u>
NET POSITION — End of year	<u>\$ (4,286,925)</u>

See notes to financial statements.

ALLIANCE ACADEMY OF CINCINNATI

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$ 3,380,685
Cash received from food services	40
Cash received from other operating revenue	71,563
Cash paid on behalf of the Academy for goods and services	<u>(4,391,881)</u>
Net cash used in operating activities	<u>(939,593)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	931,090
State grants received	<u>6,896</u>
Net cash provided by noncapital financing activities	<u>937,986</u>

NET DECREASE IN CASH (1,607)

CASH — Beginning of year 12,057

CASH — End of year \$ 10,450

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (2,359,370)
Support from private sources — NHA	1,399,972
Entitlement commodities assistance	13,529
Depreciation	1,525
Changes in assets and liabilities:	
Change in intergovernmental receivables affecting operating revenue	30,163
Change in intergovernmental payable affecting operating revenue	(710)
Change in pension system, net	83,555
Change in unearned revenue	(12)
Change in contracted service fee payable	<u>(108,245)</u>

NET CASH USED IN OPERATING ACTIVITIES \$ (939,593)

NON-CASH ACTIVITIES:

Support from private sources — NHA	<u>\$ 1,399,972</u>
Entitlement commodities assistance	<u>\$ 13,529</u>

See notes to financial statements.

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**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

1. NATURE OF OPERATIONS

Alliance Academy of Cincinnati (the "Academy") is an Ohio Public School Academy, which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter contract received from Educational Service Center of Lake Erie West (ESCLEW or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter contract's term expires on June 30, 2018. The Academy provides education to students in kindergarten through the eighth grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a nonprofit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio (the "State"). Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy operates under the direction of a board of directors (the "Board"). The Board is responsible for carrying out the provisions of the contract with the Sponsor that 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 has entered into a services agreement (the "Agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the Agreement, NHA also provides the facility in which the Academy operates. The Agreement will continue until the termination or expiration of the charter contract, up to a maximum of five years, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the Agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. *Revenues Non-operating – Private sources* – NHA represent a contribution granted by NHA for the excess of the Academy expenses over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Academy's financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, 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 total net position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise's activities.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Nonexchange 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 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.

Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Deposits — For cash management, all cash received by the Academy is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as "Cash" on the accompanying statement of net position. Cash as of June 30, 2016, represents bank deposits, which are covered by federal depository insurance.

Capital Assets — Capital assets, which include other equipment, are reported in the financial statements at historical cost. Capital assets are generally defined by the Academy as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Other equipment is depreciated using the straight-line method over useful lives of 3 to 10 years.

Contracted Service Fee Payable — Contracted service fee payable as of June 30, 2016, represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the Agreement.

Unearned Revenue — Unearned revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned.

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. Pension system recharacterization expense represents the net impact of applying GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Deferred Inflows of Resources — In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statement of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources are reported for pension on the statement of net position. (See Note 6.)

Operating Revenues and Expenses — The Academy currently participates in the State Foundation Program, the State Intervention Services Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as nonoperating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is 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.

Net Position — Net position represent the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Budgetary Process — The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a five-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

3. DEPOSITS AND INVESTMENTS

At fiscal year-end June 30, 2016, the Academy's bank balance was \$10,450. Based on the criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, as of June 30, 2016, none of the bank balance was exposed to custodial risk as discussed below and all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the Federal Reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables at June 30, 2016, is as follows:

Due from State	\$	3,750
Title I		98,894
Title IIA		2,137
National School Lunch & Breakfast		<u>8,776</u>
 Total intergovernmental receivables	 \$	 <u>113,557</u>

5. CAPITAL ASSETS

Capital asset activity of the Academy at June 30, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities — equipment	\$ 15,254	\$ -	\$ -	\$ 15,254
Less accumulated depreciation — equipment	<u>(10,962)</u>	<u>(1,525)</u>	<u>-</u>	<u>(12,487)</u>
Total capital assets — net	<u>\$ 4,292</u>	<u>\$ (1,525)</u>	<u>\$ -</u>	<u>\$ 2,767</u>

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS

A. 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 the employees' services (specifically NHA-employees and other third-party contracted employees) in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the Academy, because (1) it benefits from employee services; and (2) State statute requires all funding to come from the Academy. All contributions to date have come solely from the Academy (which also includes costs paid in the form of withholdings from NHA-employees and other third-party contracted 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.

B. Plan Description – School Employees Retirement System (SERS)

Plan Description — Non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, standalone 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.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No employer contributions were allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$50,182 for fiscal year 2016. Of this amount \$0 is reported as an intergovernmental payable.

C. Plan Description – State Teachers Retirement System (STRS)

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

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 services. 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, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The Academy's contractually required contribution to STRS was \$239,470 for fiscal year 2016. Of this amount \$0 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, 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.

The following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of net pension liability	\$ 630,484	\$ 4,347,215	\$ 4,977,699
Proportion of the net pension liability	0.011049%	0.015730%	
Total pension expense	\$ 76,929	\$ 296,280	\$ 373,209

At June 30, 2016, 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			
Difference between expected and actual experience	\$ 10,152	\$ 198,178	\$ 208,330
Changes in employer proportion and differences between contributions and proportionate share of contributions	115,701	394,396	510,097
Academy contributions subsequent to the measurement date	<u>50,182</u>	<u>239,470</u>	<u>289,652</u>
Total deferred outflows of resources	<u>\$ 176,035</u>	<u>\$ 832,044</u>	<u>\$ 1,008,079</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 20,890</u>	<u>\$ 312,646</u>	<u>\$ 333,536</u>
Total deferred inflows of resources	<u>\$ 20,890</u>	<u>\$ 312,646</u>	<u>\$ 333,536</u>

The Academy reported \$289,652 as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. 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>
2017	29,379	\$ 28,045	\$ 57,424
2018	29,379	28,045	57,424
2019	29,331	28,045	57,376
2020	<u>16,874</u>	<u>195,793</u>	<u>212,667</u>
Total	<u>\$ 104,963</u>	<u>\$ 279,928</u>	<u>\$ 384,891</u>

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

E. 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, 2015, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4 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 averaged 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:

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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
 Total	 <u>100.00 %</u>	

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 earning 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 longterm 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.

	Current		
	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 874,255	\$ 630,484	\$ 425,209

Changes Between Measurement Date and Report Date — In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

F. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Inflation	2.75 percent
Projected salary increase	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.5 percent of net of investments expense
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, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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
 Total	 <u>100.00 %</u>	

Discount Rate — The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

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 7.75 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	\$ 6,038,610	\$ 4,347,215	\$ 2,916,889

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description — On behalf of certain employees at the Academy, NHA and contractors of NHA contribute to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a costsharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians’ fees through several types of plans including HMO’s, PPO’s, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. 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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS’ participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of 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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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. Contributions on behalf of the Academy assigned to health care for the year ending June 30, 2016 and 2015 were \$0 and \$2,164 respectively; 100 percent was contributed in each fiscal year.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description — NHA, on behalf of teachers at the Academy, contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy — Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio allocated did not allocate any employer contributions to the Health Care Stabilization Fund. NHA's contributions for health care for both the fiscal years ended June 30, 2016 and 2015 were \$0.

8. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Citizens Insurance Company of America as follows:

Commercial General Liability	\$1,000,000 per occurrence \$3,000,000 in the aggregate with no deductible
Commercial Liability Umbrella	\$5,000,000 per occurrence \$5,000,000 in the aggregate with no deductible

There have been no significant reductions in insurance coverage during fiscal year 2016, and claims did not exceed coverage less retained risk deductible amounts during the past three fiscal years.

9. CONTINGENCIES

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

State Funding — Academy state foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, community schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 state foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

10. CONTRACTED SERVICE FEE

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2016:

Contracted service fee:

Salaries, wages and benefits	\$ 2,655,621
Professional and technical services	179,334
Contracted (trade) services	168,808
Property services	1,185,045
Books, periodicals, films	60,245
Supplies	127,313
Utilities	97,870
Food service	322,398
Travel and training	83,472
Purchases services	71,055
Equipment lease and purchases	109,821
Field trips and student activities	62,248
Insurance and property taxes	<u>22,417</u>
 Total direct costs	 5,145,647
 Indirect costs	 <u>514,173</u>
 Total	 <u>\$ 5,659,820</u>

NHA charges expenses benefiting more than one school (i.e., indirect expenses) based on key cost drivers. These charges represent indirect cost of services provided in the operation of the Academy. Such services include, but are not limited to, education services, facilities management, equipment, operational support services, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, grant management, technology support, and marketing and communications.

11. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with ESCLEW. The sponsorship agreement provides that ESCLEW receives 2% of State Foundation funds received by the Academy from the State. Oversight fees paid to ESCLEW were \$71,658 for fiscal year 2016.

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Continued)**

12. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2015 through June 30, 2016. Annual rental payments required by the lease are \$913,600 payable in twelve monthly payments of \$76,133. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the Academy or NHA.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2016 through June 30, 2017, at the same rental rate.

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ALLIANCE ACADEMY OF CINCINNATI

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST THREE FISCAL YEARS ⁽¹⁾

	2015	2014	2013
Academy's proportion of the net pension liability	0.011049%	0.008208%	0.008208%
Academy's proportionate share of the net pension liability	\$ 630,484	\$ 415,402	\$ 488,103
Academy's covered-employee payroll	\$ 232,889	\$ 150,202	\$ 212,542
Academy's proportionate share of the net pension liability as a percentage of the total pension liability	270.72%	276.56%	229.65%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

⁽¹⁾ Information prior to 2013 is not available.

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

ALLIANCE ACADEMY OF CINCINNATI

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY STATE TEACHERS RETIREMENT SYSTEM OF OHIO LAST THREE FISCAL YEARS ⁽¹⁾

	2015	2014	2013
Academy's proportion of the net pension liability	0.015730%	0.013989%	0.013989%
Academy's proportionate share of the net pension liability	\$ 4,347,215	\$ 3,402,570	\$ 4,053,119
Academy's covered-employee payroll	\$ 1,710,500	\$ 1,481,814	\$ 1,343,451
Academy's proportionate share of the net pension liability as a percentage of the total pension liability	254.15%	229.62%	301.69%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

⁽¹⁾ Information prior to 2013 is not available.

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

ALLIANCE ACADEMY OF CINCINNATI

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 50,182	\$ 30,694	\$ 20,818	\$ 29,416	\$ 31,926	\$ 49,400	\$ 45,120	\$ 52,614	\$ 72,404	\$ 60,834
Contributions in relation to the contractually required contribution	<u>50,182</u>	<u>30,694</u>	<u>20,818</u>	<u>29,416</u>	<u>31,926</u>	<u>49,400</u>	<u>45,120</u>	<u>52,614</u>	<u>72,404</u>	<u>60,834</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy covered-employee payroll	\$ 358,443	\$ 232,889	\$ 150,202	\$ 212,542	\$ 237,368	\$ 392,999	\$ 333,235	\$ 534,695	\$ 737,312	\$ 569,607
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

ALLIANCE ACADEMY OF CINCINNATI

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 239,470	\$ 228,293	\$ 192,636	\$ 174,649	\$ 173,497	\$ 196,351	\$ 212,037	\$ 217,913	\$ 238,132	\$ 204,129
Contributions in relation to the contractually required contribution	<u>239,470</u>	<u>228,293</u>	<u>192,636</u>	<u>174,649</u>	<u>173,497</u>	<u>196,351</u>	<u>212,037</u>	<u>217,913</u>	<u>238,132</u>	<u>204,129</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy covered-employee payroll	\$ 1,710,500	\$ 1,630,662	\$ 1,481,814	\$ 1,343,451	\$ 1,334,592	\$ 1,510,392	\$ 1,631,054	\$ 1,676,254	\$ 1,831,785	\$ 1,570,223
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

Changes in benefit terms — There were no changes in benefit terms from the amounts reported for fiscal year 2016 and 2015.

Changes in assumptions — There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2016 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

Changes in benefit terms — There were no changes in benefit terms from the amounts reported for fiscal year 2016 and 2015.

Changes in assumptions — There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2016 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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ALLIANCE ACADEMY OF CINCINNATI

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Grant Year	Federal CFDA Number	Expenditures
U.S. Department of Education —			
Passed through the Ohio Department of Education:			
Title I Grants to Local Educational Agencies	2015	84.010	\$ 37,965
	2016		<u>380,606</u>
			<u>418,571</u>
Title IIA Improving Teacher Quality	2016	84.367	<u>25,157</u>
Special Education — IDEA Part B	2016	84.027	<u>97,665</u>
Total U.S. Department of Education			<u>541,393</u>
U.S. Department of Agriculture:			
Passed through the Ohio Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance:			
National School Lunch Program — Entitlement Commodities			
Total Non-Cash Assistance	2016	10.555	<u>13,529</u>
Cash Assistance:			
National School Breakfast Program	2016	10.553	<u>90,264</u>
National School Lunch Program	2016	10.555	<u>214,561</u>
Total Cash Assistance			<u>304,825</u>
Total U.S. Department of Agriculture			<u>318,354</u>
TOTAL			<u>\$ 859,747</u>

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Academy under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Academy it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Academy has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

D. FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at the entitlement value. The Academy allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

E. TRANSFERS BETWEEN FEDERAL PROGRAMS

During the fiscal year 2016, the Academy made allowable transfers of \$30,424 from the Title IIA Improving Teacher Quality (Title IIA) program to the Title I Grants to Local Educational Agencies (Title I) program. The amount reported for the Title IIA program on the Schedule excludes the amount transferred to the Title I program. The amount transferred to the Title I program is included as Title I expenditures when disbursed. The following table shows the gross amount drawn for the Title IIA program during fiscal year 2016 and the amount transferred to the Title I program:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Title IIA Improving Teacher Quality	84.367	\$ 54,300
Transfer to Title I Grants to Local Educational Agencies	84.010	<u>(30,424)</u>
Total Title IIA Improving Teacher Quality		\$ 23,876



Dave Yost • Auditor of State

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

Alliance Academy of Cincinnati
Hamilton County
1712 Duck Creek Road
Cincinnati, Ohio 45207

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 Alliance Academy of Cincinnati, Hamilton County, Ohio, (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 29, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Alliance Academy of Cincinnati
Hamilton County
1712 Duck Creek Road
Cincinnati, Ohio 45207

To the Board of Directors:

Report on Compliance for the Major Federal Program

We have audited the Alliance Academy of Cincinnati, Hamilton County, Ohio (the Academy's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Academy's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Academy's major federal program.

Management's Responsibility

The Academy's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Academy's compliance for the Academy's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Academy's major program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on the Major Federal Program

In our opinion, the Academy complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2017

**ALLIANCE ACADEMY OF CINCINNATI
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 – Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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ALLIANCE ACADEMY OF CINCINNATI

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
APRIL 11, 2017**