



OHIO AUDITOR OF STATE
KEITH FABER



**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2019**

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OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Dayton Early College Academy, Montgomery County, Ohio (the Academy), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Dayton Early College Academy, Montgomery County, Ohio, as of June 30, 2019, 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 19 to the financial statements, during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Academy. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2020, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

April 3, 2020

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

The management's discussion and analysis of the Dayton Early College Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2019 are as follows:

- In total, net position was (\$2,269,519) at June 30, 2019.
- The Academy had operating revenues of \$2,708,042, operating expenses of \$2,487,115, non-operating revenues and contributions and donations of \$1,999,281, non-operating expenses of \$5,788 and capital contributions of \$205,231 for the fiscal year ended June 30, 2019.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2019?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account 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 that position. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

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

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-37 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability and net OPEB liability/asset. The required supplementary information can be found on pages 38-53 of this report.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

The table below provides a summary of the Academy's net position at June 30, 2019 and June 30, 2018.

Net Position		
	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets	\$ 2,451,735	\$ 1,701,512
Non-current assets	218,690	-
Capital assets, net	<u>1,205,047</u>	<u>271,209</u>
Total assets	<u>3,875,472</u>	<u>1,972,721</u>
<u>Deferred Outflows of Resources</u>	<u>910,068</u>	<u>1,254,754</u>
<u>Liabilities</u>		
Current liabilities	765,354	316,401
Non-current liabilities	<u>3,700,799</u>	<u>4,996,425</u>
Total liabilities	<u>4,466,153</u>	<u>5,312,826</u>
<u>Deferred Inflows of Resources</u>	<u>2,588,906</u>	<u>2,603,819</u>
<u>Net Position</u>		
Net investment in capital assets	730,462	140,249
Restricted	651,049	426,138
Unrestricted (deficit)	<u>(3,651,030)</u>	<u>(5,255,557)</u>
Total net position	<u>\$ (2,269,519)</u>	<u>\$ (4,689,170)</u>

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

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

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

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

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

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

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

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

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

Over time, net position can serve as a useful indicator of a government’s financial position. At June 30, 2019, the Academy’s net position totaled (\$2,269,519).

At year-end, capital assets represented 31.09% of total assets. Capital assets consisted of construction in progress, equipment and vehicles. Net investment in capital assets at June 30, 2019, was \$730,462. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

The table below shows the changes in net position for the fiscal year 2019 and 2018.

Change in Net Position

	<u>2019</u>	<u>2018</u>
<u>Operating revenues:</u>		
State foundation	\$ 2,611,884	\$ 2,355,135
Charges for services	6,444	6,625
Other	<u>89,714</u>	<u>83,867</u>
Total operating revenues	<u>2,708,042</u>	<u>2,445,627</u>
<u>Operating expenses:</u>		
Personnel services	1,223,626	(235,683)
Purchased services	744,716	887,709
Materials and supplies	122,871	163,347
Other operating expenses	356,302	165,409
Depreciation	<u>39,600</u>	<u>63,601</u>
Total operating expenses	<u>2,487,115</u>	<u>1,044,383</u>
<u>Non-operating revenues/(expenses):</u>		
Intermediate, state and federal grants	680,349	510,095
Earnings on investments	28,194	10,200
Donations and contributions	1,290,738	901,548
Interest and fiscal charges	<u>(5,788)</u>	<u>(2,342)</u>
Total non-operating revenues/(expenses)	<u>1,993,493</u>	<u>1,419,501</u>
Capital contributions	<u>205,231</u>	<u>-</u>
Change in net position	2,419,651	2,820,745
Net position at beginning of year	<u>(4,689,170)</u>	<u>(7,509,915)</u>
Net position at end of year	<u>\$ (2,269,519)</u>	<u>\$ (4,689,170)</u>

Operating revenues of the Academy increased \$262,415 or 10.73%. This increase can mainly be attributed to an increase in State foundation revenue. State foundation revenue rose due to more students served by the Academy compared to fiscal year 2018.

Expenses increased \$1,442,732 or 138.14%. This increase is primarily the result of increases in the net pension and net OPEB expenses.

Intermediate, state and federal grants increased \$170,254 due mainly to an increase in the Federal funding in comparison to the previous year. The Academy also received a grant from the Ohio Facilities Construction Commission ("OFCC") to assist in the improvements being made to the Academy. This grant is being reported as capital contributions.

Capital Assets

At June 30, 2019, the Academy had \$1,205,047 invested in construction in progress, equipment and vehicles. See Note 7 to the basic financial statements for more detail on capital assets.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

Debt Administration

At June 30, 2019, the Academy had \$102,468 in capital leases outstanding. Of this total, \$24,290 is due in one year and \$78,178 is due in more than one year. See Notes 6 and 9 to the basic financial statements for more detail on debt.

Current Financial Related Activities

The Academy switched sponsors in fiscal year 2018 to the Thomas B. Fordham Foundation. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

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

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Steven A. Hinshaw, Ph.D., Treasurer, Dayton Early College Academy, 300 College Park, Dayton, OH 45469-2930.

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2019

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 362,560
Cash with fiscal agent	1,630,353
Receivables:	
Accounts	812
Intergovernmental.	457,421
Prepayments	<u>589</u>
Total current assets	<u>2,451,735</u>
Non-current assets:	
Net OPEB asset	218,690
Capital assets:	
Nondepreciable capital assets	973,438
Depreciable capital assets, net	<u>231,609</u>
Total capital assets.	<u>1,205,047</u>
Total non-current assets.	<u>1,423,737</u>
Total assets.	<u>3,875,472</u>
 Deferred outflows of resources:	
Pension	879,480
OPEB	<u>30,588</u>
Total deferred outflows of resources	<u>910,068</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	139,276
Contracts payable	314,183
Retainage payable	57,934
Accrued wages and benefits	185,093
Pension and postemployment benefits payable	16,734
Intergovernmental payable	27,844
Capital leases obligation	<u>24,290</u>
Total current liabilities	<u>765,354</u>
Non-current liabilities:	
Capital leases obligation	78,178
Net pension liability	3,423,625
Net OPEB liability	<u>198,996</u>
Total non-current liabilities	<u>3,700,799</u>
Total liabilities	<u>4,466,153</u>
 Deferred inflows of resources:	
Pension	1,855,583
OPEB	<u>733,323</u>
Total deferred inflows of resources	<u>2,588,906</u>
 Net position:	
Net investment in capital assets.	730,462
Restricted for:	
Restricted for public school support	11,771
Restricted for locally funded programs.	313,295
Restricted for state programs/capital projects	74,269
Restricted for federal programs	152,368
Restricted for food service operations	99,346
Unrestricted (deficit)	<u>(3,651,030)</u>
Total net position.	<u>\$ (2,269,519)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Operating revenues:	
State foundation	\$ 2,611,884
Charges for services	6,444
Other	89,714
Total operating revenues	<u>2,708,042</u>
 Operating expenses:	
Personnel services	1,223,626
Purchased services.	744,716
Materials and supplies	122,871
Other operating expenses.	356,302
Depreciation	39,600
Total operating expenses.	<u>2,487,115</u>
 Operating income	 <u>220,927</u>
 Non-operating revenues (expenses):	
Intermediate, state and federal grants	680,349
Earnings on investments	28,194
Donations and contributions	1,290,738
Interest and fiscal charges	(5,788)
Total non-operating revenues (expenses)	<u>1,993,493</u>
 Income before capital contributions	 <u>2,214,420</u>
 Capital contributions.	 <u>205,231</u>
 Change in net position	 2,419,651
 Net position at beginning of year	 <u>(4,689,170)</u>
Net position at end of year	<u>\$ (2,269,519)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Cash received from foundation	\$ 2,616,496
Cash received from charges for services.	6,444
Cash received from other operations	88,691
Cash payment for personnel services.	(2,356,299)
Cash payments for purchased services	(705,942)
Cash payments to suppliers for goods and supplies	(120,859)
Cash payments for other expenses	(326,061)
	<hr/>
Net cash used in operating activities	(797,530)
	<hr/>
Cash flows from noncapital financing activities:	
Cash received from intermediate, state and federal grants	542,013
Cash received from donations and contributions	1,290,738
	<hr/>
Net cash provided by noncapital financing activities.	1,832,751
	<hr/>
Cash flows from capital and related financing activities:	
Interest paid on capital leases	(5,788)
Principal paid on capital leases	(28,492)
Acquisition of capital assets	(601,321)
	<hr/>
Net cash used in capital and related financing activities.	(635,601)
	<hr/>
Cash flows from investing activities:	
Interest received	28,194
	<hr/>
Net cash provided by investing activities	28,194
	<hr/>
Net change in cash and cash equivalents	427,814
	<hr/>
Cash and cash equivalents at beginning of year	1,565,099
Cash and cash equivalents at end of year	<u>\$ 1,992,913</u>
	<hr/>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 220,927
Adjustments:	
Depreciation	39,600
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	413
Intergovernmental receivable	712
Prepayments	20,033
Net OPEB asset	(218,690)
Deferred outflows of resources - pension	336,234
Deferred outflows of resources - OPEB	8,452
Accounts payable.	47,738
Accrued wages and benefits	8,091
Intergovernmental payable	26,408
Pension and postemployment benefits payable	(1,199)
Net pension liability	(658,237)
Net OPEB liability	(613,099)
Deferred inflows of resources - pension	(271,766)
Deferred inflows of resources - OPEB	256,853
	<hr/>
Net cash used in operating activities	<u>\$ (797,530)</u>

Non-cash transaction:

During fiscal year 2018, the Academy received \$105,444 in non-operating grants, which was recognized as a receivable at June 30, 2018. A receivable in the amount of \$449,011 has been recorded for non-operating grants at June 30, 2019.

At June 30, 2019, the Academy purchased \$372,117 in capital assets on account through contracts payable (\$314,183) and retainage payable (\$57,934).

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 1 - DESCRIPTION OF THE ACADEMY

Dayton Early College Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status. The mission of the Academy, one of the first institutions of its kind in the United States and the first early college high school in Ohio, is to maximize each student’s unique potential through a personalized, accelerated academic program. The Academy addresses a critical need in urban public schools to help students, particularly those underrepresented in higher education, to explore their personal and intellectual potential, achieve academic success, and make a seamless transition from high school to college. The Academy was developed out of a partnership between the University of Dayton and the Dayton City School District. Fiscal year 2008 represented the first year of operation of the Academy as an independent charter school. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may 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 Dayton City School District for a period of five years commencing July 1, 2007 and ending June 30, 2012. During fiscal year 2012, the Academy and Sponsor approved an additional contract for a period of five years commencing July 1, 2012 and ending June 30, 2017. Beginning July 1, 2017, the Thomas B. Fordham Foundation (the “Sponsor”) became the Sponsor for the Academy for a five-year period ending June 30, 2022. The Sponsor is responsible for evaluating the Academy’s performance and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy operates under a self-appointing twelve member Governing Board (the “Board”). The Board is composed of a Chairman, Vice Chairman, Parent Representative and nine Board members. The Academy’s Treasurer is a non-voting member of the Board. The Academy’s Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy’s one instructional/support facility staffed by 65 certified full-time teaching personnel and 15 non-certified employees who provide services to 342 students.

The University of Dayton provides educational assistance/opportunities for the students and professional development for the staff of the Academy. The University of Dayton provides the Academy with facilities (See Note 10). The Dayton Foundation provides the Academy with fiscal support for donations and grants. These monies are held in separate accounts by the Dayton Foundation and are presented as “cash with fiscal agent” on the statement of net position (See Note 4).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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.

A. Basis of Presentation

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

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources are included on the statement of net position. Equity consists of net total position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, see Notes 13 and 14 for deferred outflows of resources related the Academy's net pension liability and net OPEB liability/asset, respectively.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, see Notes 13 and 14 for deferred inflows of resources related to the Academy's net pension liability and net OPEB liability/asset, respectively.

D. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor.

The Academy's Board adopts a formal budget at the beginning of the Academy year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The Academy Principal and Business Manager are responsible for ensuring that purchases are made within these limits.

E. Cash and Investments

All cash the Academy receives is maintained at a central bank. The Academy also has cash that the University of Dayton and the Dayton Foundation hold and is reported as "cash with fiscal agent". For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2019, the Academy invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Academy measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

During fiscal year 2019, cash the Academy received was maintained in demand deposit accounts.

F. Capital Assets and Depreciation

All capital assets except for construction in progress are depreciated. Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$2,500. The Academy does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of equipment and vehicles is computed using the straight-line method over estimated useful lives of five to ten years.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. For the Academy, these revenues are payments from the State foundation program, classroom materials and fees and food service charges. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the OneNet grant, the Federal IDEA Part B grant, the Federal Title I grant, the Federal Title II-A grant, the Title IV-A grant, the Federal School Breakfast Program and the Federal School Lunch Program. Revenues received from the State Foundation Program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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. Intermediate, State and Federal grant revenue for the fiscal year 2019 was \$680,349.

I. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

J. Compensated Absences

The Academy accrues a liability for employees that were Board approved to receive severance.

K. Estimates

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

L. Net Position

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

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

M. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2019, the Academy has implemented GASB Statement No. 83, “Certain Asset Retirement Obligations” and GASB Statement No. 88, “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”.

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Academy.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Cash with Fiscal Agent

The Academy had \$1,630,353 in cash held by the Dayton Foundation at June 30, 2019. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. This amount is not included in the “deposits” reported below.

B. Cash on Hand

At fiscal year end, the Academy had \$100 in undeposited cash on hand which is included on the financial statements of the Academy as part of “equity in pooled cash and cash equivalents”.

C. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all Academy deposits was \$326,835 and the bank balance of all Academy deposits was \$394,691. Of the bank balance, \$250,000 was covered by the FDIC and \$144,691 was exposed to custodial credit risk as described below.

Custodial credit risk is the risk that, in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Academy and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. For fiscal year 2019, the Academy’s financial institutions were approved for a reduced collateral rate of 50 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Academy to a successful claim by the FDIC.

D. Investments

As of June 30, 2019, the Academy had the following investments and maturities:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturities 6 months or less</u>
Amortized cost:		
STAR Ohio	<u>\$ 35,625</u>	<u>\$ 35,625</u>

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's.

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type the Academy held at June 30, 2019:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
Amortized cost:		
STAR Ohio	\$ 35,625	100.00

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2019:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 326,835
Investments	35,625
Cash with fiscal agent	1,630,353
Cash on hand	<u>100</u>
Total	<u>\$ 1,992,913</u>
<u>Cash and investments per statement of net position</u>	
Business-type activities	<u>\$ 1,992,913</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2019 consisted of accounts and intergovernmental grants and entitlements. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds.

A summary of the receivables reported on the statement of net position follows:

Accounts	\$ 812
Intergovernmental:	
Title II-A	74,821
Title IV-A	4,196
Title I	164,763
OFCC	205,231
Other programs	<u>8,410</u>
Total	<u>\$ 458,233</u>

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 6 - LONG-TERM OBLIGATIONS

Changes in the Academy's long-term obligations during fiscal year 2019 were as follows.

	Balance <u>06/30/18</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/19</u>	Due Within <u>One Year</u>
Capital lease obligation payable	\$ 130,960	\$ -	\$ (28,492)	\$ 102,468	\$ 24,290
Net pension liability	4,081,862	-	(658,237)	3,423,625	-
Net OPEB liability	<u>812,095</u>	<u>-</u>	<u>(613,099)</u>	<u>198,996</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 5,024,917</u>	<u>\$ -</u>	<u>\$ (1,299,828)</u>	<u>\$ 3,725,089</u>	<u>\$ 24,290</u>

Capital Lease Obligation: See Note 9 for details.

Net Pension Liability and Net OPEB Liability/Asset: See Note 13 and 14 for details.

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

A summary of the Academy's capital assets at June 30, 2019, follows:

	Balance <u>6/30/18</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/19</u>
<i>Capital assets, not being depreciated</i>				
Construction in progress	\$ -	\$ 973,438	\$ -	\$ 973,438
<i>Total capital assets, not being depreciated</i>	<u>-</u>	<u>973,438</u>	<u>-</u>	<u>973,438</u>
<i>Capital assets, being depreciated</i>				
Equipment	\$ 466,215	-	-	\$ 466,215
Vehicles	<u>41,700</u>	<u>-</u>	<u>-</u>	<u>41,700</u>
<i>Total capital assets, being depreciated</i>	<u>507,915</u>	<u>-</u>	<u>-</u>	<u>507,915</u>
<i>Less: Accumulated Depreciation</i>				
Equipment	(207,121)	(35,430)	-	(242,551)
Vehicles	<u>(29,585)</u>	<u>(4,170)</u>	<u>-</u>	<u>(33,755)</u>
<i>Total accumulated depreciation</i>	<u>(236,706)</u>	<u>(39,600)</u>	<u>-</u>	<u>(276,306)</u>
<i>Net Capital Assets</i>	<u>\$ 271,209</u>	<u>\$ 933,838</u>	<u>\$ -</u>	<u>\$ 1,205,047</u>

NOTE 8 - PURCHASED SERVICES

Purchased services include the following:

Professional and technical services	\$ 213,615
Property services	328,351
Travel mileage/meeting expense	13,523
Communications	1,295
Contracted craft or trade	87,834
Tuition	19,515
Pupil transportation	62,364
Other purchased services	<u>18,219</u>
Total purchased services	<u>\$ 744,716</u>

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the Academy entered into capitalized leases for copiers. All leases meet the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been originally capitalized in the amount of \$269,271, which represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2019 was \$167,859, leaving a current book value of \$101,412. Principal and interest payments in the 2019 fiscal year totaled \$28,492 and \$5,788, respectively.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2019:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2020	\$ 28,862
2021	28,861
2022	28,862
2023	<u>26,457</u>
Total future minimum lease payments	113,042
Less: amount representing interest	<u>(10,574)</u>
Present value of future minimum lease payments	<u>\$ 102,468</u>

NOTE 10 - OPERATING LEASES

The Academy entered into a lease for fiscal year 2016 with the University of Dayton to lease the third floor of the building located at 1529 Brown Street to house the Academy. During fiscal year 2019, the Academy made lease payments of \$297,287.

The following is a schedule of the future minimum rental payments required under the operating lease as of June 30, 2019:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2020	\$ 304,726
2021	310,821
2022	317,037
2023	323,378
2024	<u>329,846</u>
Total	<u>\$ 1,585,808</u>

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the Academy contracted with Ohio Casualty for general, automobile and excess/umbrella liability insurance. General liability carries a limit of \$1,000,000 for each occurrence and \$2,000,000 aggregate. Automobile carries a \$1,000,000 combined single limit and excess/umbrella liability carries a limit of \$3,000,000 for each occurrence. There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy's coverage in any of the past three years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

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

NOTE 12 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, Life and Vision Benefits

The Academy has contracted with United Healthcare for medical, life and vision benefits and Superior Dental for dental benefits to its employees.

NOTE 13 - 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 *pension and postemployment benefits payable* on the accrual basis of accounting.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or 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; or 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% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$26,470 for fiscal year 2019. Of this amount, \$853 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - 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% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age.

Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The Academy was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$220,233 for fiscal year 2019. Of this amount, \$15,033 is reported as pension and postemployment benefits payable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.0087268%	0.0149881%	
Proportion of the net pension liability current measurement date	<u>0.0075291%</u>	<u>0.01360948%</u>	
Change in proportionate share	<u>-0.0011977%</u>	<u>-0.00137862%</u>	
Proportionate share of the net pension liability	\$ 431,206	\$ 2,992,419	\$ 3,423,625
Pension expense	\$ (121,699)	\$ (225,367)	\$ (347,066)

At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 23,649	\$ 69,076	\$ 92,725
Changes of assumptions	9,739	530,313	540,052
Contributions subsequent to the measurement date	<u>26,470</u>	<u>220,233</u>	<u>246,703</u>
Total deferred outflows of resources	<u>\$ 59,858</u>	<u>\$ 819,622</u>	<u>\$ 879,480</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 19,543	\$ 19,543
Net difference between projected and actual earnings on pension plan investments	11,947	181,458	193,405
Difference between employer contributions and proportionate share of contributions/change in proportionate share	<u>199,060</u>	<u>1,443,575</u>	<u>1,642,635</u>
Total deferred inflows of resources	<u>\$ 211,007</u>	<u>\$ 1,644,576</u>	<u>\$ 1,855,583</u>

\$246,703 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, 2020.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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>
2020	\$ (92,009)	\$ (256,182)	\$ (348,191)
2021	(67,796)	(316,153)	(383,949)
2022	(14,149)	(381,608)	(395,757)
2023	<u>(3,665)</u>	<u>(91,244)</u>	<u>(94,909)</u>
Total	<u>\$ (177,619)</u>	<u>\$ (1,045,187)</u>	<u>\$ (1,222,806)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
	Academy's proportionate share of the net pension liability	\$ 607,385	\$ 431,206

**DAYTON EARLY COLLEGE ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$ 4,370,034	\$ 2,992,419	\$ 1,826,455

NOTE 14 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

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

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

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

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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Academy's surcharge obligation was \$816.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$1,796 for fiscal year 2019. Of this amount, \$848 is reported as pension and postemployment benefits payable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability/asset was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.0084701%	0.0149881%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.0071729%</u>	<u>0.01360948%</u>	
Change in proportionate share	<u>-0.0012972%</u>	<u>-0.0013786%</u>	
Proportionate share of the net OPEB liability	\$ 198,996	\$ -	\$ 198,996
Proportionate share of the net OPEB asset	\$ -	\$ (218,690)	\$ (218,690)
OPEB expense	\$ (37,235)	\$ (527,453)	\$ (564,688)

At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 3,249	\$ 25,543	\$ 28,792
Contributions subsequent to the measurement date	<u>1,796</u>	<u>-</u>	<u>1,796</u>
Total deferred outflows of resources	<u>\$ 5,045</u>	<u>\$ 25,543</u>	<u>\$ 30,588</u>

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 12,741	\$ 12,741
Net difference between projected and actual earnings on pension plan investments	299	24,984	25,283
Changes of assumptions	17,878	297,983	315,861
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>105,657</u>	<u>273,781</u>	<u>379,438</u>
Total deferred inflows of resources	<u>\$ 123,834</u>	<u>\$ 609,489</u>	<u>\$ 733,323</u>

\$1,796 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ (54,334)	\$ (108,650)	\$ (162,984)
2021	(42,951)	(108,650)	(151,601)
2022	(6,913)	(108,650)	(115,563)
2023	(6,788)	(102,976)	(109,764)
2024	(6,807)	(100,988)	(107,795)
Thereafter	<u>(2,792)</u>	<u>(54,032)</u>	<u>(56,824)</u>
Total	<u>\$ (120,585)</u>	<u>\$ (583,946)</u>	<u>\$ (704,531)</u>

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Academy's proportionate share of the net OPEB liability	\$ 241,466	\$ 198,996	\$ 165,367

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
Academy's proportionate share of the net OPEB liability	\$ 160,553	\$ 198,996	\$ 249,901

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018		July 1, 2017
Inflation	2.50%		2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation
Payroll increases	3.00%		3.00%
Cost-of-living adjustments (COLA)	0.00%		0.00%, effective July 1, 2017
Discounted rate of return	7.45%		N/A
Blended discount rate of return	N/A		4.13%
Health care cost trends			6 to 11% initial, 4.50% ultimate
	Initial	Ultimate	
Medical			
Pre-Medicare	6.00%	4.00%	
Medicare	5.00%	4.00%	
Prescription Drug			
Pre-Medicare	8.00%	4.00%	
Medicare	-5.23%	4.00%	

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

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

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

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net OPEB asset	\$ 187,438	\$ 218,690	\$ 244,956

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB asset	\$ 243,474	\$ 218,690	\$ 193,521

NOTE 15 - CONTINGENCIES

A. Grants

The Academy received financial assistance from State agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. 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, 2019.

B. State Foundation Funding

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2019.

The Academy owed \$2,533 to ODE. The amount has been reported as intergovernmental payable on the statement of net position.

NOTE 16 - SERVICE AGREEMENTS

The Thomas B. Fordham Foundation

The Academy entered into a five-year contract effective on July 1, 2017 and continuing through June 30, 2022 with the Thomas B. Fordham Foundation (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy's compliance with applicable laws and the terms of the contract; and,
- Monitor and evaluate the academic, fiscal performance and the organization and operation of the Academy.

The Academy paid the Sponsor a 2.00% sponsorship fees from the School's total state support for the first 300 FTEs and 1.5% for all additional FTEs. During fiscal year 2019, the Academy made \$37,879 in payments to the Sponsor.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 17 - JOINTLY GOVERNED ORGANIZATION

Meta Solutions - The Academy is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Valley Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. During fiscal year 2019, the Academy paid META Solutions \$12,035 for services. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

NOTE 18 - RELATED PARTIES

The Superintendent and Treasurer of Dayton Early College Academy serve in the same capacity for DECA Prep. Members of the Governing Board for Dayton Early College Academy also serve on the board for DECA Prep. During fiscal year 2019, Dayton Early College Academy served as fiscal agent for the Connor Donation grant and other grants. Dayton Early College Academy also received \$500,000 in funding from DECA Prep which is reported as “donations and contributions” on the basic financial statements.

NOTE 19 – SUBSEQUENT EVENTS

On January 30, 2020, the Academy received the Quality School Funding grant in the amount of \$431,717 from the Ohio Department of Education.

During fiscal year 2020, the Board approved phase three of the construction project for academy’s facility with an estimated cost of \$4,000,000 to be paid through OFCC grant and private donations.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Academy. The Academy's investments of the pension and other employee benefit plan in which the Academy participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Academy's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Academy's proportion of the net pension liability	0.00752910%	0.00872680%	0.01368850%	0.01486120%
Academy's proportionate share of the net pension liability	\$ 431,206	\$ 521,407	\$ 1,001,872	\$ 847,994
Academy's covered payroll	\$ 245,644	\$ 277,464	\$ 440,729	\$ 447,398
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	175.54%	187.92%	227.32%	189.54%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	62.98%	69.16%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.01239800%	0.01239800%
\$ 627,456	\$ 737,269
\$ 360,260	\$ 313,382
174.17%	235.26%
71.70%	65.52%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Academy's proportion of the net pension liability	0.01360948%	0.01498810%	0.02086907%	0.02234438%
Academy's proportionate share of the net pension liability	\$ 2,992,419	\$ 3,560,455	\$ 6,985,507	\$ 6,175,333
Academy's covered payroll	\$ 1,549,636	\$ 1,598,721	\$ 2,162,907	\$ 2,331,264
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	193.10%	222.71%	322.97%	264.89%
Plan fiduciary net position as a percentage of the total pension liability	77.31%	75.30%	66.80%	72.10%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.02276618%	0.02276618%
\$ 5,537,523	\$ 6,596,261
\$ 2,326,077	\$ 2,192,038
238.06%	300.92%
74.70%	69.30%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 26,470	\$ 33,162	\$ 38,845	\$ 61,702
Contributions in relation to the contractually required contribution	<u>(26,470)</u>	<u>(33,162)</u>	<u>(38,845)</u>	<u>(61,702)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 196,074	\$ 245,644	\$ 277,464	\$ 440,729
Contributions as a percentage of covered payroll	13.50%	13.50%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 58,967	\$ 49,932	\$ 43,372	\$ 35,626	\$ 28,753	\$ 21,516
<u>(58,967)</u>	<u>(49,932)</u>	<u>(43,372)</u>	<u>(35,626)</u>	<u>(28,753)</u>	<u>(21,516)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 447,398	\$ 360,260	\$ 313,382	\$ 264,877	\$ 228,743	\$ 158,907
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 220,233	\$ 216,949	\$ 223,821	\$ 302,807
Contributions in relation to the contractually required contribution	<u>(220,233)</u>	<u>(216,949)</u>	<u>(223,821)</u>	<u>(302,807)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 1,573,093	\$ 1,549,636	\$ 1,598,721	\$ 2,162,907
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2015	2014	2013	2012	2011	2010
\$ 326,377	\$ 302,390	\$ 284,965	\$ 251,014	\$ 224,543	\$ 209,775
(326,377)	(302,390)	(284,965)	(251,014)	(224,543)	(209,775)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,331,264	\$ 2,326,077	\$ 2,192,038	\$ 1,930,877	\$ 1,727,254	\$ 1,613,654
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability	0.00717290%	0.00847010%	0.01375856%
Academy's proportionate share of the net OPEB liability	\$ 198,996	\$ 227,315	\$ 392,170
Academy's covered payroll	\$ 245,644	\$ 277,464	\$ 440,729
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.01%	81.93%	88.98%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%	12.46%	11.49%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability/asset	0.01360948%	0.01498810%	0.02086907%
Academy's proportionate share of the net OPEB liability/(asset)	\$ (218,690)	\$ 584,780	\$ 1,116,083
Academy's covered payroll	\$ 1,549,636	\$ 1,598,721	\$ 2,162,907
Academy's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	-14.11%	36.58%	51.60%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	176.00%	47.10%	37.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST EIGHT FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 1,796	\$ 5,283	\$ 4,055	\$ 6,476
Contributions in relation to the contractually required contribution	<u>(1,796)</u>	<u>(5,283)</u>	<u>(4,055)</u>	<u>(6,476)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 196,074	\$ 245,644	\$ 277,464	\$ 440,729
Contributions as a percentage of covered payroll	0.92%	2.15%	1.46%	1.47%

Information prior to fiscal year 2012 was unavailable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 7,108	\$ 1,417	\$ 4,519	\$ 3,341
<u>(7,108)</u>	<u>(1,417)</u>	<u>(4,519)</u>	<u>(3,341)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 447,398	\$ 360,260	\$ 313,382	\$ 264,877
1.59%	0.39%	1.44%	1.26%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 1,573,093	\$ 1,549,636	\$ 1,598,721	\$ 2,162,907
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ -	\$ 23,359	\$ 21,920	\$ 19,309	\$ 17,273	\$ 16,137
-	(23,359)	(21,920)	(19,309)	(17,273)	(16,137)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,331,264	\$ 2,326,077	\$ 2,192,038	\$ 1,930,877	\$ 1,727,254	\$ 1,613,654
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2019.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2019.

(Continued)

**DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate.

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OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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

Dayton Early College Academy
Montgomery County
300 College Park
Dayton, Ohio 45469

To the Governing Board:

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 Dayton Early College Academy, Montgomery County, (the Academy) as of and for the fiscal year ended June 30, 2019, 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 3, 2020, wherein we noted that the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Academy.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2019-001 to be a significant deficiency.

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*.

Academy's Response to the Finding

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the Academy's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

April 3, 2020

DAYTON EARLY COLLEGE ACADEMY
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2019

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

FINDING NUMBER 2019-001

SIGNIFICANT DEFICIENCY – PAYROLL RECONCILIATION

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to the accounting system records (book) is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Board and/or other administrator are responsible for reviewing the reconciliations and related support.

Monthly bank to book reconciliations over the payroll account were not completed prior to June 2019. At June 30, 2019, the bank balance exceeded the book balance by \$2,623. Failure to reconcile monthly increases the possibility that the Academy will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The Academy should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Board should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

Official's Response: The payroll account has been reconciled monthly beginning July 1, 2019.

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OHIO AUDITOR OF STATE
KEITH FABER



DAYTON EARLY COLLEGE ACADEMY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 19, 2020**