# TOLEDO SCHOOL FOR THE ARTS
# LUCAS COUNTY

## REGULAR AUDIT

## FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Dave Yost · Auditor of State

**TOLEDO SCHOOL FOR THE ARTS**
**LUCAS COUNTY**
**JUNE 30, 2016**

## TABLE OF CONTENTS

This page intentionally left blank.

## INDEPENDENT AUDITOR'S REPORT

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, Ohio 43604

To the Governing Board:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Toledo School for the Arts, Lucas County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Toledo School for the Arts, Lucas County, Ohio, as of June 30, 2016 and the changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2017, on our consideration of the School'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 School's internal control over financial reporting and compliance.

Dave Yost

**Dave Yost**
Auditor of State

Columbus, Ohio

April 21, 2017

The discussion and analysis of Toledo School for the Arts (TSA) financial performance provides an overall review of TSA's financial activities for the fiscal year ended June 30, 2016. Readers should also review the basic financial statements and notes to enhance their understanding of TSA's financial performance.

## Highlights

For the fiscal year ended June 30, 2016, TSA's net position decreased $88,669, or approximately 2 percent from the prior fiscal year. Revenues decreased approximately $495,000 (primarily contributions and donations) and expenses increased approximately $264,000.

## Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and change in net position reflect how TSA did financially during fiscal year 2016. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report TSA's net position and change in net position. This change in net position is important because it tells the reader whether the financial position of TSA has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of TSA's net position for fiscal year 2016 and fiscal year 2015:

Table 1
Net Position

| | 2016 | 2015 | Change |
|---|---|---|---|
| Assets | | | |
| Current Assets | $1,367,802 | $1,516,331 | ($148,529) |
| Non-Current Assets (excluding capital assets) | 502,508 | 554,841 | (52,333) |
| Capital Assets, Net | 5,400,078 | 5,507,406 | (107,328) |
| Total Assets | 7,270,388 | 7,578,578 | (308,190) |
| Deferred Outflows of Resources | | | |
| Pension | 1,046,713 | 510,430 | 536,283 |

(continued)

Table 1
Net Position
(continued)

| | 2016 | 2015 | Change |
|---|---|---|---|
| Liabilities | | | |
| Current Liabilities | $797,447 | $770,635 | ($26,812) |
| Non-Current Liabilities | | | |
| Pension | 7,960,202 | 6,743,743 | (1,216,459) |
| Other Amounts | 3,840,125 | 4,060,339 | 220,214 |
| Total Liabilities | 12,597,774 | 11,574,717 | (1,023,057) |
| Deferred Inflows of Resources | | | |
| Pension | 522,897 | 1,222,487 | 699,590 |
| Other Amounts | 81,896 | 88,601 | 6,705 |
| Total Deferred Inflows of Resources | 604,793 | 1,311,088 | 706,295 |
| Net Position | | | |
| Net Investment in Capital Assets | 1,714,739 | 1,626,540 | 88,199 |
| Restricted | 387,853 | 388,438 | (585) |
| Unrestricted (Deficit) | (6,988,058) | (6,811,775) | (176,283) |
| Total Net Position (Deficit) | ($4,885,466) | ($4,796,797) | ($88,669) |

The net pension liability is the largest single liability reported by TSA at June 30, 2016, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of TSA's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal TSA's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

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

In accordance with GASB Statement No. 68, TSA's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

The increase in current assets was largely due to an increase in cash and cash equivalents as well as an increase in the intergovernmental receivable (primarily Title I). The decrease in non-current assets is due to a decrease in pledges receivable. In the prior fiscal year, there was a pledge campaign. The decrease in net capital assets is due to annual depreciation. The decrease in other long-term liabilities is the result of debt retirement.

Table 2 reflects the change in net position for fiscal year 2016 and fiscal year 2015.

Table 2
Change in Net Position

| | 2016 | 2015 | Change |
|---|---|---|---|
| Operating Revenues | | | |
| Foundation | $4,795,675 | $4,734,587 | $61,088 |
| Sales | 295,163 | 292,508 | 2,655 |
| Tuition and Fees | 18,581 | 11,507 | 7,074 |
| Other Operating Revenues | 48,563 | 119,264 | (70,701) |
| Total Operating Revenues | 5,157,982 | 5,157,866 | 116 |
| Non-Operating Revenues | | | |
| Operating Grants | 565,666 | 427,438 | 138,228 |
| Contributions and Donations | 490,740 | 1,125,879 | (635,139) |
| Interest Revenue | 1,490 | 133 | 1,357 |
| Total Non-Operating Revenues | 1,057,896 | 1,553,450 | (495,554) |
| Total Revenues | 6,215,878 | 6,711,316 | (495,438) |
| Operating Expenses | | | |
| Salaries | 3,361,373 | 3,235,291 | (126,082) |
| Fringe Benefits | 1,021,943 | 864,658 | (157,285) |
| Purchased Services | 941,151 | 836,206 | (104,945) |
| Materials and Supplies | 455,810 | 570,118 | 114,308 |
| Depreciation | 216,516 | 211,463 | (5,053) |
| Other Operating Expenses | 70,640 | 80,328 | 9,688 |
| Total Operating Expenses | 6,067,433 | 5,798,064 | (269,369) |
| Non-Operating Expenses | | | |
| Interest Expense | 237,114 | 242,531 | 5,417 |
| Total Expenses | 6,304,547 | 6,040,595 | (263,952) |
| Increase (Decrease) in Net Position | (88,669) | 670,721 | (759,390) |
| Net Position (Deficit) at Beginning of Year | (4,796,797) | (5,467,518) | 670,721 |
| Net Position (Deficit) at End of Year | ($4,885,466) | ($4,796,797) | ($88,669) |

The decrease in revenues from the prior fiscal year was primarily due to a decrease in contributions and donations. In the prior fiscal year, there was a pledge campaign. The increase in expenses is mostly staff related and due to salary and benefit increases.

## Budgeting

TSA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

## Capital Assets

At the end of fiscal year 2016, TSA had $5,400,078 invested in capital assets (net of accumulated depreciation). Additions were primarily building improvements. For further information regarding TSA's capital assets, refer to Note 6 to the basic financial statements.

## Debt Administration

At the end of fiscal year 2016, TSA had outstanding development revenue bonds, in the amount of $2,758,335, and outstanding loans, in the amount of $1,280,708. Final maturity on the revenue bonds is in fiscal year 2028. Long-term obligations also include the net pension liability and capital leases. For further information regarding TSA's long-term obligations, refer to Notes 11 and 12 to the basic financial statements.

## Current Issues

Bowling Green State University initially adopted the sponsorship contract of TSA for a period of four years, from July 1, 2008, through June 30, 2012. The sponsorship agreement was renewed in the spring of 2012 for an additional five years through June 30, 2017. On April 11, 2017, the Board approved a new sponsorship agreement for an additional five year through June 30, 2022.

The Toledo Community Foundation houses an endowment fund for the Toledo School for the Arts. Established in July 2008, the purpose of this endowment is to provide funding for programs which would not otherwise be available through federal, state, or local sources. The balance of the endowment on June 30, 2016, was $145,014.

## Contacting TSA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of TSA's finances and to reflect TSA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jamie Lockwood, Treasurer, Toledo School for the Arts, 333 14th Street, Toledo, Ohio, 43604.

Toledo School for the Arts
Statement of Net Position
June 30, 2016

| | |
|---|---|
| Current Assets | |
| Cash and Cash Equivalents | $1,024,851 |
| Accounts Receivable | 3,100 |
| Accrued Interest Receivable | 637 |
| Intergovernmental Receivable | 199,752 |
| Prepaid Items | 18,376 |
| Restricted Assets: | |
| Cash and Cash Equivalents with Fiscal Agent | 12,836 |
| Pledges Receivable | 108,250 |
| Total Current Assets | 1,367,802 |
| | |
| Non-Current Assets | |
| Restricted Assets: | |
| Cash and Cash Equivalents | 69,491 |
| Cash and Cash Equivalents with Fiscal Agent | 375,017 |
| Pledges Receivable | 58,000 |
| Nondepreciable Capital Assets | 58,300 |
| Depreciable Capital Assets, Net | 5,341,778 |
| Total Non-Current Assets | 5,902,586 |
| | |
| Total Assets | 7,270,388 |
| | |
| Deferred Outflows of Resources | |
| Pension | 1,046,713 |
| | |
| Current Liabilities | |
| Accounts Payable | 2,460 |
| Accrued Wages and Benefits Payable | 443,229 |
| Accrued Interest Payable | 39,242 |
| Intergovernmental Payable | 92,302 |
| Development Revenue Bonds Payable | 140,833 |
| Loans Payable | 73,185 |
| Capital Leases Payable | 6,196 |
| Total Current Liabilities | 797,447 |
| | |
| Non-Current Liabilities | |
| Development Revenue Bonds Payable | 2,617,502 |
| Loans Payable | 1,207,523 |
| Net Pension Liability | 7,960,202 |
| Capital Leases Payable | 15,100 |
| Total Non-Current Liabilities | 11,800,327 |
| | |
| Total Liabilities | 12,597,774 |
| | |
| Deferred Inflows of Resources | |
| Unavailable Revenue | 81,896 |
| Pension | 522,897 |
| Total Deferred Inflows of Resources | 604,793 |
| | |
| Net Position | |
| Net Investment in Capital Assets | 1,714,739 |
| Restricted for: | |
| Current Debt Service | 12,836 |
| Future Debt Service | 375,017 |
| Unrestricted (Deficit) | (6,988,058) |
| Total Net Position (Deficit) | ($4,885,466) |

See Accompanying Notes to Basic Financial Statements

Toledo School for the Arts
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended June 30, 2016

| | |
|---|---|
| Operating Revenues | |
| Foundation | $4,795,675 |
| Sales | 295,163 |
| Tuition and Fees | 18,581 |
| Other Operating Revenues | 48,563 |
| Total Operating Revenues | 5,157,982 |
| | |
| Operating Expenses | |
| Salaries | 3,361,373 |
| Fringe Benefits | 1,021,943 |
| Purchased Services | 941,151 |
| Materials and Supplies | 455,810 |
| Depreciation | 216,516 |
| Other Operating Expenses | 70,640 |
| Total Operating Expenses | 6,067,433 |
| | |
| Operating Loss | (909,451) |
| | |
| Non-Operating Revenues (Expenses) | |
| Grants | 565,666 |
| Contributions and Donations | 490,740 |
| Interest Revenue | 1,490 |
| Interest Expense | (237,114) |
| Total Non-Operating Revenues (Expenses) | 820,782 |
| | |
| Change in Net Position | (88,669) |
| | |
| Net Position (Deficit) at Beginning of Year | (4,796,797) |
| Net Position (Deficit) at End of Year | ($4,885,466) |

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

| | |
|---|---|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Foundation | $4,794,515 |
| Cash Received from Sales | 289,882 |
| Cash Received from Tuition and Fees | 18,581 |
| Cash Received from Other Revenues | 69,519 |
| Cash Payments for Salaries | (3,349,681) |
| Cash Payments for Fringe Benefits | (1,039,980) |
| Cash Payments for Goods and Services | (1,424,648) |
| Cash Payments for Other Expenses | (70,640) |
| Net Cash Used for Operating Activities | (712,452) |
| Cash Flows from Noncapital Financing Activities | |
| Cash Received from Grants | 477,377 |
| Cash Received from Contributions and Donations | 823,725 |
| Net Cash Provided by Noncapital Financing Activities | 1,301,102 |
| Cash Flows from Capital and Related Financing Activities | |
| Principal Paid on Development Revenue Bonds | (130,833) |
| Interest Paid on Development Revenue Bonds | (173,741) |
| Principal Paid on Loans | (58,316) |
| Interest Paid on Loans | (63,693) |
| Lease Principal | (6,378) |
| Lease Interest | (1,313) |
| Acquisition of Capital Assets | (109,188) |
| Net Cash Used for Capital and Related Financing Activities | (543,462) |
| Cash Flows from Investing Activities | |
| Cash Received from Interest | 853 |
| Net Increase in Cash and Cash Equivalents | 46,041 |
| Cash and Cash Equivalents at Beginning of Year | 1,436,154 |
| Cash and Cash Equivalents at End of Year | $1,482,195 |

(continued)

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(continued)

| | |
|---|---|
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | |
| Operating Loss | ($909,451) |
| | |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities | |
| Depreciation | 216,516 |
| Changes in Assets and Liabilities: | |
| Decrease in Accounts Receivable | 11,477 |
| Decrease in Intergovernmental Receivable | 9,743 |
| Increase in Prepaids | (18,376) |
| Increase in Accounts Payable | 1,309 |
| Decrease in Contracts Payable | (10,520) |
| Increase in Accrued Wages and Benefits Payable | 15,190 |
| Decrease in Intergovernmental Payable | (2,221) |
| Decrease in Deferred Outflows of Resources | (6,705) |
| Increase in Net Pension Liability | 61,960 |
| Decrease in Deferrred Outflows of Resources - Pension | 128,848 |
| Decrease in Deferred Inflows of Resources - Pension | (210,222) |
| Net Cash Used for Operating Activities | ($712,452) |

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Fiduciary Assets and Liablilities
Fiduciary Funds
June 30, 2016

| | Private Purpose Trust | Agency |
|---|---|---|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | $34,562 | $18,428 |
| Liabilities | | |
| Due to Students | 0 | $18,428 |
| Net Position | | |
| Held in Trust for Scholarships | $34,562 | |

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2016

| | Private Purpose Trust |
|---|---|
| Additions | |
| Contributions and Donations | $29,777 |
| Deductions | |
| Non-Instructional Services | 41,459 |
| Change in Net Position | (11,682) |
| Net Position at Beginning of Year | 46,244 |
| Net Position at End of Year | $34,562 |

See Accompanying Notes to the Basic Financial Statements

This page is intentionally left blank.

## Note 1 - Description of the School

Toledo School for the Arts (TSA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. TSA 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 TSA's tax exempt status. TSA's objective is to serve students who are not thriving in a traditional setting, desire meaningful learning experiences, and wish to regain a level of control over their educational experience. TSA encompasses a safe community environment, discovery based methods, parenting education, critical thinking, and problem solving. TSA's programs are currently available to students in grades 6 through 12. TSA, 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. TSA may acquire facilities as needed and contract for any services necessary for the operation of TSA.

TSA was approved for operation under a contract with Bowling Green State University (the Sponsor) for a period of five years commencing July 1, 2012. The Sponsor is responsible for evaluating the performance of TSA and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

TSA operates under the direction of a twenty-one member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. It is staffed by twenty-four classified employees, forty-seven certified teaching personnel, and ten administrative employees who provide services to six hundred seventy-one students and other community members.

## Note 2 - Summary of Significant Accounting Policies

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

### A. Basis of Presentation

TSA's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and change in net position, and a statement of cash flows.

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

TSA also maintains two fiduciary funds. Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by TSA under a trust agreement for individuals, private organizations, or other governments and are not available to support TSA'S own programs. TSA's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. TSA's agency fund accounts for various non-instructional student-managed activities.

**B. Measurement Focus**

TSA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of TSA are included on the statement of net position. The statement of revenues, expenses, and change in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how TSA finances and meets its cash flow needs.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. TSA's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which TSA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which TSA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to TSA on a reimbursement basis.

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. For TSA, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 8 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For TSA, deferred inflows of resources consists of unavailable revenue and pension. Unavailable revenue consists of registration fees. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 8 to the basic financial statements.

Expenses are recognized at the time they are incurred.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by TSA's contract with its Sponsor. The contract between TSA and its Sponsor does prescribe a budget requirement.

**E. Cash and Cash Equivalents**

Cash held by TSA is reflected as "Cash and Cash Equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2016, TSA invested in mutual funds which are reported at fair value. Fair value is based on current share price.

Cash and cash equivalents that are held separately with the Bank of New York are recorded as "Cash and Cash Equivalents with Fiscal Agent".

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions.

Restricted assets represent certain resources which are segregated from other resources of TSA to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of TSA or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

**G. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. TSA maintains a capitalization threshold of five thousand dollars. TSA 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 an asset's life are not capitalized.

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

| Description | Useful Lives |
|---|---|
| Buildings and Building Improvements | 15 - 50 years |
| Furniture, Fixtures, and Equipment | 5-40 years |
| Vehicles | 15 years |

**Note 2 - Summary of Significant Accounting Policies** (continued)

**H. Net Position**

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. TSA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of TSA. For TSA, these revenues are generally foundation payments from the State. TSA also received operating revenues from sales (ticket and store sales) and from tuition and fees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TSA. All revenues and expenses not meeting this definition are reported as non-operating.

**J. Pensions**

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

**K. Estimates**

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

**Note 3 - Change in Accounting Principles**

For fiscal year 2016, TSA has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application”, GASB Statement No. 76, “Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”, and GASB Statement No. 82, “Pension Issues-an Amendment of GASB Statements No. 67, No. 69, and No. 73”.

**Note 3 - Change in Accounting Principles** (continued)

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this statement did not result in any changes to the School District's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**Note 4 - Deposits and Investments**

At fiscal year end, the carrying amount of TSA's deposits was $1,160,168 and the bank balance was $1,293,998 of which $530,557 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject TSA to a successful claim by the FDIC.

As of June 30, 2016, TSA's investments consisted of mutual funds, in the amount of $375,017. The mutual funds had a AAA rating from Moody's and an average maturity of 25 days. TSA has no policy addressing interest rate risk.

**Note 5 - Receivables**

Receivables at June 30, 2016, consisted of accounts, accrued interest, intergovernmental, and pledges receivable. Most intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. All receivables, except pledges, are expected to be collected within one year. Pledges, in the amount of $58,000, will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|---|---|
| Food Service | $6,758 |
| Idea Part-B | 41,489 |
| Title I | 143,020 |
| Title II-A | 8,485 |
| Total Intergovernmental Receivables | $199,752 |

## Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

| | Balance at 6/30/15 | Additions | Reductions | Balance at 6/30/16 |
|---|---|---|---|---|
| Nondepreciable Capital Assets | | | | |
| Land | $58,300 | $0 | $0 | $58,300 |
| Construction in Progress | 48,068 | 98,580 | (146,648) | 0 |
| Total Nondepreciable Capital Assets | 106,368 | 98,580 | (146,648) | 58,300 |
| Depreciable Capital Assets | | | | |
| Buildings and Building Improvements | 6,462,373 | 146,648 | 0 | 6,609,021 |
| Furniture, Fixtures, and Equipment | 62,612 | 10,608 | 0 | 73,220 |
| Vehicles | 10,670 | 0 | 0 | 10,670 |
| Total Depreciable Capital Assets | 6,535,655 | 157,256 | 0 | 6,692,911 |
| Less Accumulated Depreciation | | | | |
| Buildings and Building Improvements | (1,101,517) | (212,887) | 0 | (1,314,404) |
| Furniture, Fixtures, and Equipment | (30,966) | (2,918) | 0 | (33,884) |
| Vehicles | (2,134) | (711) | 0 | (2,845) |
| Total Accumulated Depreciation | (1,134,617) | (216,516) | 0 | (1,351,133) |
| Depreciable Capital Assets, Net | 5,401,038 | (59,260) | 0 | 5,341,778 |
| Capital Assets, Net | $5,507,406 | $39,320 | ($146,648) | $5,400,078 |

## Note 7 - Risk Management

TSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, TSA contracted for the following insurance coverage:

| | |
|---|---|
| Coverage provided by The Netherlands Insurance Company is as follows: | |
| Building and Contents | $4,245,670 |
| General School District Liability | |
| Per Occurrence | 1,000,000 |
| Total Per Year | 2,000,000 |
| Automobile Liability | 1,000,000 |
| Uninsured Motorists | 1,000,000 |
| Coverage provided by The Midwestern Indemnity Company is as follows: | |
| Umbrella Liability | 5,000,000 |

**Note 7 - Risk Management** (continued)

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

Workers' compensation coverage is provided by the State of Ohio. TSA pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

## Note 8 - 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 have already occurred.

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

GASB Statement No. 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 the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty 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 fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

**Note 8 - Defined Benefit Pension Plans** (continued)

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

Plan Description - TSA classified 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. The 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 on or after August 1, 2017 |
|---|---|---|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit;<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit;<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit;<br>Age 60 with 25 years of service credit |

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and TSA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

TSA's contractually required contribution to SERS was $105,519 for fiscal year 2016. Of this amount, $17,292 is reported as an intergovernmental payable.

**Note 8 - Defined Benefit Pension Plans** (continued)

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

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

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307.

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

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

The CP offers features of both the DBP and the DCP. In the CP, 11 percent of the 12 percent member rate goes to the DCP and 1 percent goes to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty.

New members who choose the DCP or CP 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 CP 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 Statement No. 68 reporting purposes.

**Note 8 - Defined Benefit Pension Plans** (continued)

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased 1 percent to 14 percent. TSA was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

TSA's contractually required contribution to STRS was $363,604 for fiscal year 2016. Of this amount, $63,942 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. TSA's proportion of the net pension liability was based on TSA's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.02187400% | 0.02317397% | |
| Proportion of the Net Pension Liability Current Measurement Date | 0.02240780% | 0.02417619% | |
| Change in Proportionate Share | 0.00053380% | 0.00100222% | |
| Proportionate Share of the Net Pension Liability | $1,278,611 | $6,681,591 | $7,960,202 |
| Pension Expense | $88,997 | $360,712 | $449,709 |

**Note 8 - Defined Benefit Pension Plans** (continued)

At June 30, 2016, TSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences Between Expected and Actual Experience | $20,588 | $304,596 | $325,184 |
| Changes in Proportionate Share and Difference Between TSA Contributions and Proportionate Share of Contributions | 24,886 | 227,520 | 252,406 |
| TSA Contributions Subsequent to the Measurement Date | 105,519 | 363,604 | 469,123 |
| Total Deferred Outflows of Resources | $150,993 | $895,720 | $1,046,713 |
| **Deferred Inflows of Resources** | | | |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | $42,364 | $480,533 | $522,897 |

$469,123 reported as deferred outflows of resources related to pension resulting from TSA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ended June 30, | | | |
| 2017 | ($7,434) | ($51,561) | ($58,995) |
| 2018 | (7,434) | (51,561) | (58,995) |
| 2019 | (7,531) | (51,561) | (59,092) |
| 2020 | 25,509 | 206,266 | 231,775 |
| Total | $3,110 | $51,583 | $54,693 |

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the 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.

**Note 8 - Defined Benefit Pension 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 pension liability in the latest actuarial valuation prepared as of June 30, 2015, are presented below.

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investment expenses, including inflation |
| Actuarial Cost Method | entry age normal |

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

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

The long-term return expectation for the pension plan investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes. The target allocation and the long-term expected real rate of return for each major asset class are summarized in the following table.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 1.00% | 0.00% |
| U.S. Stocks | 22.50 | 5.00 |
| Non-U.S. Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | 15.00 | 7.50 |
| Total | 100.00% | |

**Note 8 - Defined Benefit Pension Plans** (continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of TSA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| TSA's Proportionate Share of the Net Pension Liability | $1,772,974 | $1,278,611 | $862,316 |

**Changes between Measurement Date and Report Date**

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

**Actuarial Assumptions - STRS**

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

**Note 8 - Defined Benefit Pension Plans** (continued)

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study effective July 1, 2012.

STRS' investment consultant develops best estimates 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 Nominal Rate of Return * |
|---|---|---|
| Domestic Equity | 31.00% | 8.00% |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| | 100.00% | |

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| TSA's Proportionate Share of the Net Pension Liability | $9,281,235 | $6,681,591 | $4,483,206 |

**Note 9 - Postemployment Benefits**

**School Employees Retirement System (SERS)**

Health Care Plan Description - TSA contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was $23,000. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2016, TSA's surcharge obligation was $5,611.

TSA's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 was $0, $5,648, and $839, respectively. The full amount has been contributed for all three fiscal years.

**State Teachers Retirement System (STRS)**

Health Care Plan Description - TSA participates in the cost-sharing multiple-employer defined benefit health care plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer the plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at www.strsoh.org or by calling (888) 227-7877.

**Note 9 - Postemployment Benefits** (continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board 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 postemployment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016, and June 30, 2015, STRS did not allocate any employer contributions to postemployment health care. For the fiscal year ended June 30, 2014, 1 percent of covered payroll was allocated to postemployment health care. TSA's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $0, $24,317 respectively. The full amount has been contributed for all three fiscal years.

**Note 10 - Other Employee Benefits**

TSA provides medical benefits through Paramount, vision benefits through Vision Service Plan, and dental benefits through Delta Dental. The Board pays the entire monthly premium, except for part-time employees who pay a pro-rated portion for their benefits.

TSA also provides life insurance to active full-time employees through the Hartford Life Insurance Company.

**Note 11 - Long-Term Obligations**

Changes in TSA's long-term obligations during fiscal year 2016 were as follows:

| | Balance at 6/30/15 | Additions | Reductions | Balance at 6/30/16 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-Term Obligations | | | | | |
| FY 2008 Development Revenue Bonds - 5.5% | $2,889,168 | $0 | $130,833 | $2,758,335 | $140,833 |
| Loans Payable | | | | | |
| FY 2014 Loan - 4.9% | 1,339,024 | 0 | 58,316 | 1,280,708 | 73,185 |
| Net Pension Liability | | | | | |
| SERS | 1,107,031 | 171,580 | 0 | 1,278,611 | 0 |
| STRS | 5,636,712 | 1,044,879 | 0 | 6,681,591 | 0 |
| Total Net Pension Liability | 6,743,743 | 1,216,459 | 0 | 7,960,202 | 0 |
| Capital Leases Payable | 27,674 | 0 | 6,378 | 21,296 | 6,196 |
| Total Long-Term Obligations | $10,999,609 | $1,216,459 | $195,527 | $12,020,541 | $220,214 |

FY 2008 Development Revenue Bonds - On December 19, 2007, Toledo Lucas County Port Authority issued bonds on behalf of TSA, in the amount of $3,750,000, for building acquisition and improvement. Of this amount, $375,000 was not capitalized. The bonds were issued for a twenty year period, with final maturity in fiscal year 2028.

**Note 11 - Long-Term Obligations** (continued)

The bonds are subject to optional redemption, by and at the sole option of TSA, either in whole or in part and in integral multiples of $5,000, on any date on or after November 15, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The bonds are also subject to mandatory sinking redemption at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on each May 15 and November 15, in the following principal amounts and in the years specified:

| Year | May 15 Principal Amount | November 15 Principal Amount |
|---|---|---|
| 2016 | $65,000 | $70,000 |
| 2017 | 70,000 | 75,000 |
| 2018 | 75,000 | 80,000 |
| 2019 | 80,000 | 85,000 |
| 2020 | 85,000 | 85,000 |
| 2021 | 90,000 | 95,000 |
| 2022 | 95,000 | 100,000 |
| 2023 | 100,000 | 105,000 |
| 2024 | 110,000 | 110,000 |
| 2025 | 115,000 | 120,000 |
| 2026 | 120,000 | 125,000 |
| 2027 | 130,000 | 135,000 |
| 2028 | 515,000 | 0 |

FY 2014 Loan - On October 20, 2013, TSA obtained a loan from the Toledo Lucas County Port Authority for building acquisition and improvement. TSA received $342,666 in fiscal year 2014 and $1,018,786 in fiscal year 2015, for a total loan of $1,361,452. The loan was issued for a fourteen year period, with final maturity in fiscal year 2029.

Principal and interest requirements to retire outstanding long-term obligations at June 30, 2016, were as follows:

| | Development Revenue Bonds | |
|---|---|---|
| Fiscal Year Ending June 30, | Principal | Interest |
| 2017 | $140,833 | $165,034 |
| 2018 | 150,833 | 156,348 |
| 2019 | 160,833 | 147,056 |
| 2020 | 170,000 | 137,158 |
| 2021 | 176,667 | 126,842 |
| 2022-2026 | 1,075,001 | 456,600 |
| 2027-2028 | 884,168 | 83,371 |
| Total | $2,758,335 | $1,272,409 |

**Note 11 - Long-Term Obligations** (continued)

| Fiscal Year Ending June 30, | Loans Payable Principal | Loans Payable Interest |
|---|---|---|
| 2017 | $73,185 | $59,267 |
| 2018 | 76,661 | 55,791 |
| 2019 | 80,301 | 52,150 |
| 2020 | 84,114 | 48,337 |
| 2021 | 88,108 | 44,342 |
| 2022-2026 | 507,426 | 154,828 |
| 2027-2029 | 370,913 | 29,704 |
| Total | $1,280,708 | $444,419 |

**Note 12 - Capital Leases - Lessee Disclosure**

TSA has entered into capitalized leases for equipment. Principal payments in fiscal year 2016 were $6,378.

| | Governmental Activities |
|---|---|
| Equipment | $32,813 |
| Less Accumulated Depreciation | (13,125) |
| Carrying Value at June 30, 2016 | $19,688 |

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2016.

| Year | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2017 | $6,196 | $906 |
| 2018 | 6,507 | 595 |
| 2019 | 6,832 | 269 |
| 2020 | 1,761 | 14 |
| Total | $21,296 | $1,784 |

## Note13 - Contingencies

### A. Grants

TSA received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TSA at June 30, 2016.

### B. Litigation

TSA is party to legal proceedings seeking damages or injunctive relief generally incidental to operations. The management of TSA does not feel this will have a material impact on the financial statements.

### C. Full Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. ODE has finalized the impact of enrollment adjustments to the fiscal year 2015 and fiscal year 2016 Foundation funding for TSA and determined that as of June 30, 2016, TSA was underpaid by $11,942. The amount does not have a significant impact on the financial statements and, therefore, has not been recorded as an intergovernmental receivable on the statement of net position.

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| TSA's Proportion of the Net Pension Liability | 0.02240780% | 0.02187400% | 0.02187400% |
| TSA's Proportionate Share of the Net Pension Liability | $1,278,611 | $1,107,031 | $1,300,777 |
| TSA's Covered Employee Payroll | $688,763 | $599,557 | $515,023 |
| TSA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | 185.64% | 184.64% | 252.57% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.16% | 71.70% | 65.52% |

(1) Information prior to 2013 is not available.

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

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| TSA's Proportion of the Net Pension Liability | 0.02417619% | 0.02317397% | 0.02317397% |
| TSA's Proportionate Share of the Net Pension Liability | $6,681,591 | $5,636,712 | $6,714,414 |
| TSA's Covered Employee Payroll | $2,542,593 | $2,431,746 | $2,123,638 |
| TSA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | 262.79% | 231.80% | 316.18% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.10% | 74.70% | 69.30% |

(1) Information prior to 2013 is not available.

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

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Contractually Required Contribution | $105,519 | $90,779 | $83,099 | $71,279 |
| Contributions in Relation to the Contractually Required Contribution | (105,519) | (90,779) | (83,099) | (71,279) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| TSA's Covered Employee Payroll | $753,707 | $688,763 | $599,557 | $515,023 |
| Contributions as a Percentage of Covered Employee Payroll | 14.00% | 13.18% | 13.86% | 13.84% |

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| $66,600 | $53,120 | $38,953 | $36,416 | $27,379 | $23,919 |
| (66,600) | (53,120) | (38,953) | (36,416) | (27,379) | (23,919) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $495,165 | $422,591 | $287,692 | $370,077 | $278,810 | $223,961 |
| 13.45% | 12.57% | 13.54% | 9.84% | 9.82% | 10.68% |

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Contractually Required Contribution | $363,604 | $355,963 | $316,127 | $276,073 |
| Contributions in Relation to the Contractually Required Contribution | (363,604) | (355,963) | (316,127) | (276,073) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| TSA Covered Employee Payroll | $2,597,171 | $2,542,593 | $2,431,746 | $2,123,638 |
| Contributions as a Percentage of Covered Employee Payroll | 14.00% | 14.00% | 13.00% | 13.00% |

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| $260,304 | $261,309 | $240,378 | $223,351 | $203,593 | $184,479 |
| (260,304) | (261,309) | (240,378) | (223,351) | (203,593) | (184,479) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $2,002,338 | $2,010,069 | $1,849,062 | $1,718,085 | $1,566,100 | $1,419,069 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

This page is intentionally left blank.

# Dave Yost · Auditor of State

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

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, Ohio 43604

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 the business-type activities and the aggregate remaining fund information of Toledo School for the Arts, Lucas County, Ohio (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 21, 2017.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School'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 School'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 School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

As part of reasonably assuring whether the School'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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

Dave Yost

**Dave Yost**
Auditor of State

Columbus, Ohio

April 21, 2017

Dave Yost • Auditor of State

**TOLEDO SCHOOL FOR THE ARTS**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**MAY 9, 2017**