KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

James G. Zupka, CPA, Inc.
Certified Public Accountants

Dave Yost • Auditor of State

Board of Directors
Klepinger Community School
3650 Klepinger Road
Dayton, Ohio 45416-1919

We have reviewed the *Independent Auditor's Report* of the Klepinger Community School, Montgomery County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Klepinger Community School is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

March 13, 2018

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KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
Klepinger Community School
Dayton, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Klepinger Community School, Montgomery County, Ohio, (the School) as of and for the year ended June 30, 2017, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Klepinger Community School as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with 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 that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 22, 2017

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KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED

The discussion and analysis of the Klepinger Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, net position was deficit $3,801,285 at June 30, 2017.

- The School had operating revenues of $3,463,206, operating expenses of $4,570,615 and non-operating revenues of $1,055,208 for fiscal year 2017.

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 School's financial activities. The s*tatement of net position* and s*tatement of revenues, expenses and changes in net position* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School'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 2017?" 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 School's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the School 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 10 and 11 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 12 of this report.

The table below provides a summary of the School's net position for fiscal year 2017 and 2016.

Net Position

	2017	2016
Assets		
Current assets	$ 267,503	$ 95,075
Deferred outflows of resources	986,222	362,602
Liabilities		
Current liabilities	272,918	95,038
Non-current liabilities	4,497,004	3,577,585
Total liabilities	4,769,922	3,672,623
Deferred inflows of resources	285,088	534,138
Net Position		
Unrestricted (deficit)	(3,801,285)	(3,749,084)
Total net position (deficit)	$ (3,801,285)	$ (3,749,084)

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

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

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

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

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

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

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School's net position totaled a deficit of $3,801,285 compared to a deficit of $3,749,084 at June 30, 2016.

The School reported intergovernmental receivables for grants at June 30, 2017 and 2016, in the amount of $257,758 and $90,156, respectively. As a result of the full-time equivalency (FTE) reviews by the Ohio Department of Education (ODE) at June 30, 2017, an intergovernmental receivable was reported in the amount of $8,260 for State foundation revenue that was due from ODE for fiscal year 2017. As a result of the FTE reviews by ODE at June 30, 2017, accounts payable in the amount of $6,029 was reported for State foundation revenue that was underpaid to Imagine Schools, Inc. during fiscal year 2017.

The School had accounts and intergovernmental payables of $272,918 and $95,038 for fiscal years 2017 and 2016, respectively, due to Imagine Schools, Inc. and other vendors. Included in intergovernmental payables reported at June 30, 2017, was an amount of $6,599 due to the U.S. Department of Education.

The table below shows the changes in net position for fiscal years 2017 and 2016.

Change in Net Position

	2017	2016
Operating Revenues:		
State foundation	$ 3,463,206	$ 3,432,730
Total operating revenue	3,463,206	3,432,730
Operating Expenses:		
Sponsorship payments	102,010	102,744
Management fees	3,602,662	3,256,053
Legal	20,261	17,374
Professional services	21,219	20,747
Lease payments	814,181	790,467
Other	10,282	10,258
Total operating expenses	4,570,615	4,197,643
Non-operating Revenues:		
Federal and state grants	1,055,208	835,848
Total non-operating revenues	1,055,208	835,848
Change in net position	(52,201)	70,935
Net position (deficit) at beginning of year	(3,749,084)	$ (3,820,019)
Net position (deficit) at end of year	$ (3,801,285)	$ (3,749,084)

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from Federal entitlement programs. The School received slightly more in State foundation revenue due to an increase in student enrollment from 415 students in fiscal year 2016 to 422 students in fiscal year 2017. The School received Federal grant monies through the Child Nutrition Breakfast & Lunch, School Improvement Sub A-Title I, Title I, and Title VI-B programs during fiscal year 2017.

Debt

The School had no debt obligations outstanding at June 30, 2017, or June 30, 2016.

Capital Assets

The School had no capital assets over the threshold to report at June 30, 2017, or June 30, 2016.

Restrictions and Other Limitations

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the School.

Current Financial Related Activities

The School is sponsored by St. Aloysius. The School is reliant upon State foundation monies and Federal Sub-Grants to offer quality, educational services to students.

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

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Dan Lamb, Treasurer, Charter School Specialists, 3650 Klepinger Road, Dayton, Ohio 45416-1919.

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BASIC
FINANCIAL STATEMENTS

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Cash	$ 1,485
Receivables:	
Intergovernmental.	266,018
Total assets	267,503
Deferred outflows of resources:	
Pension - STRS	628,907
Pension - SERS	357,315
Total deferred outflows of resources	986,222
Liabilities:	
Current liabilities:	
Accounts payable.	266,319
Intergovernmental payable	6,599
Total current liabilities	272,918
Long-term liabilities:	
Net pension liability (See Note 6)	4,497,004
Total liabilities.	4,769,922
Deferred inflows of resources:	
Pension - STRS	270,983
Pension - SERS	14,105
Total deferred inflows of resources	285,088
Net position:	
Unrestricted (deficit)	(3,801,285)
Total net position (deficit).	$ (3,801,285)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
State foundation	$ 3,463,206
Total operating revenues	3,463,206
Operating expenses:	
Sponsorship payments	102,010
Management fees	3,602,662
Legal	20,261
Professional services	21,219
Lease payments.	814,181
Other	10,282
Total operating expenses.	4,570,615
Operating loss	(1,107,409)
Non-operating revenues:	
Federal and State grants.	1,055,208
Total non-operating revenues	1,055,208
Change in net position.	(52,201)
Net position (deficit) at beginning of year.	(3,749,084)
Net position (deficit) at end of year	$ (3,801,285)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from State foundation	$ 3,457,735
Cash payments for sponsorship payments	(101,762)
Cash payments for management fees	(3,378,853)
Cash payments for legal fees	(19,049)
Cash payments for professional services	(21,219)
Cash payments for lease	(814,181)
Cash payments for other expenses	(10,282)
Net cash used in operating activities	(887,611)
Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	887,606
Net cash provided by noncapital financing activities	887,606
Net decrease in cash	(5)
Cash at beginning of year	1,490
Cash at end of year	$ 1,485
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (1,107,409)
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Decrease in accounts receivable	3,429
(Increase) in intergovernmental receivable	(8,260)
(Increase) in deferred outflows - pensions	(623,620)
Increase in accounts payable	175,091
Increase in intergovernmental payable	2,789
Increase in net pension liability	919,419
(Decrease) in deferred inflows - pensions	(249,050)
Net cash used in operating activities	$ (887,611)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Klepinger Community School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School specializes in providing students in grades K-8 with a safe and secure learning community that will equip children to achieve academic excellence and personal growth. The focus is on students residing in the Dayton City School District. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved under contract with St. Aloysius (the "Sponsor") for its establishment commencing on April 10, 2008 and ending on June 30, 2010, with subsequent renewals. On June 19, 2015, the contract was renewed for automatic one year terms effective July 1, 2015 through June 30, 2020. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under the direction of a Governing Board which must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the School. 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 qualification of teachers. The Governing Board controls the School's intructional/support facility staffed by employees of the management company who provide services to 422 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The School's significant accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The School uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets plus deferred outflow of resources and all liabilities plus deferred inflow of resources associated with the operation of the School are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the School finances meet its cash flow needs.

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

C. Basis of Accounting

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

D. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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 School, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the School's net pension liability.

E. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Each year, the School Governing Board, with the assistance of the School's designated fiscal officer, is required to adopt an annual budget by the thirty-first day of October using the format and following the guidelines prescribed by the Ohio Department of Education. Chapter 5705.39 of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education (ODE).

F. Cash

Cash received by the School is reflected as "cash" on the statement of net position. Unless otherwise noted, all monies received by the School are pooled and deposited in a central bank account as demand deposits. The School did not have any investments during fiscal year 2017.

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

G. Capital Assets

All capital assets are capitalized at cost or estimated historical cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The School has established a capitalization threshold of $5,000. The School does not have any infrastructure. 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.

The School had no capital assets over the threshold to report at June 30, 2017.

H. Net Position

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first 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 the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenues

The School currently participates in the State Foundation, Special Education, Targeted Assistance, K-3 Literacy, and Economic Disadvantaged Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2017 school year totaled $3,463,206.

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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Federal and State grant revenue received during fiscal year 2017 was $1,055,208.

K. Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net position.

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

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net 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.

M. Estimates

The preparation of 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.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2017, the carrying amount of the School's deposits and the bank balance was $1,485. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES/PAYABLES

Receivables at June 30, 2017, consisted of intergovernmental receivables arising from amounts due from other governments and grants and entitlements. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	Amount
ODE - enrollment and FTE adjustment	$ 8,260
Title VI-B	13,115
Title I	192,318
Title II-A	52,325
Total intergovernmental receivables	$ 266,018

Under the terms of the operating contract with Imagine Schools, Inc. (See Note 9.B for detail), the School has recorded accounts payable to Imagine Schools, Inc. in the amount of $257,758 for 100 percent of any State and Federal grant monies uncollected or unpaid as of June 30, 2017 and $6,277 for 76 percent of the amount of the Ohio Department of Education (ODE) enrollment and full-time equivalency (FTE) adjustment at June 30, 2017 due to Imagine Schools Inc. and the Sponsor.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The School has contracted with Imagine Schools, Inc. (See Note 9.B) to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to the systems noted below.

A. Net Pension Liability

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

The net pension liability represents the School'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.

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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.

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

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 the School 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, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $60,469 for fiscal year 2017.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5 of the 13.5 percent member rates go to the DC Plan and 1.5 percent goes 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was $180,620 for fiscal year 2017.

D. 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School'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:

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.00814260%	0.01126371%	
Proportion of the net pension liability current measurement date	0.01182050%	0.01085009%	
Change in proportionate share	0.00367790%	-0.00041362%	
Proportionate share of the net pension liability	$ 865,152	$ 3,631,852	$ 4,497,004
Pension expense	$ 137,394	$ 150,444	$ 287,838

At June 30, 2017, the School 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	$ 11,667	$ 146,744	$ 158,411
Net difference between projected and actual earnings on pension plan investments	71,364	301,543	372,907
Changes of assumptions	57,754	-	57,754
Difference between School contributions and proportionate share of contributions/ change in proportionate share	156,061	-	156,061
School contributions subsequent to the measurement date	60,469	180,620	241,089
Total deferred outflows of resources	$ 357,315	$ 628,907	$ 986,222
Deferred inflows of resources			
Difference between School contributions and proportionate share of contributions/ change in proportionate share	$ 14,105	$ 270,983	$ 285,088
Total deferred inflows of resources	$ 14,105	$ 270,983	$ 285,088

$241,089 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$ 85,984	$ (11,529)	$ 74,455
2019	85,934	(11,528)	74,405
2020	90,310	104,182	194,492
2021	20,514	96,179	116,693
Total	$ 282,741	$ 177,304	$ 460,045

E. Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015.

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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	100.00 %	

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School's proportionate share of the net pension liability	$ 1,145,407	$ 865,152	$ 630,566

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School'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%
School's proportionate share of the net pension liability	$ 4,826,436	$ 3,631,852	$ 2,624,150

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School's NPL is expected to be significant.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing multiple-employee defined benefit pension plan SERS administers a postemployment benefit plan. Imagine Schools, Inc., on behalf of the School, participates in this plan.

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

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14 percent contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0 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 2017, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund.

The School's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $7,202, $5,944, and $6,491, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description - STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that offers features of the Defined Benefit Plan and the Defined Contribution Plan. Imagine Schools, Inc., on behalf of the School, participates in this plan.

Ohio Law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefits or Combined Plans and their eligible dependents. Coverage under the current program includes 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, 2019.

Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling 888-227-7877.

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2017, 2016 and 2015. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The School did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 8 - RISK MANAGEMENT

The School 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 2017, the School maintained the following coverage: general liability, automobile liability, excess/umbrella liability, crime liability, and personal property liability through Philadelphia Indemnity Insurance Co.; directors and officers liability through National Union Fire Insurance Co.; and workers compensation and employers' liability through Charter Oak Fire Insurance Co.

Coverage	Limits of Coverage
General liability:	
Each occurrence	$ 1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	3,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Retention	10,000
Crime liability	1,000,000
Personal property liability:	
Limit	500,000
Deductible	5,000
Directors and officers liability	3,000,000
Workers compensation and employers' liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

Settled claims have not exceeded commercial coverage in the past three years. There has not been a reduction in coverage from the prior fiscal year.

NOTE 9 - CONTRACTS

A. Sponsor Contract

The School entered into a sponsorship contract commencing on April 10, 2008 and ending on June 30, 2010 with St. Aloysius (the “Sponsor”) for its establishment, with subsequent renewals of the contract. On June 19, 2015, the contract was renewed for automatic one year terms effective July 1, 2015 through June 30, 2020. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School’s compliance with the laws applicable to the School and with the terms of this contract;

- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis;

- Provide reasonable technical assistance to the School in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the School);

- Take steps to intervene in the School’s operation to correct problems in the School’s overall performance, declare the School to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;

- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year; and

- Abide by the requirements of its contract with ODE, even should those requirements affect the School.

The School paid the Sponsor $102,010 for services during fiscal year 2017.

B. Management Contract

The School entered into a management contract with Imagine Schools, Inc. for management consulting services. Imagine Schools, Inc. is required to provide the following services:

- Personnel & human resources administration
- Program of instruction
- Purchasing & contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

NOTE 9 - CONTRACTS - (Continued)

For the services listed above, the School is required to pay a fee to Imagine Schools, Inc. The fee for fiscal year 2017 was equal to approximately 68 percent of the total per pupil allowance received from the State of Ohio and 100 percent of State and/or Federal grant funds received by the School for the creation and operation of its school. Payments to Imagine Schools, Inc. amounted to $3,602,662 during fiscal year 2017.

C. Service Contract

The School entered into a service contract for a period of twelve months, commencing on July 1, 2016 and ending on June 30, 2017, with Charter School Specialists, LLC (CSS), to provide fiscal services. The School paid CSS $18,494 during fiscal year 2017 for these services.

NOTE 10 - LONG-TERM OBLIGATIONS

The School's long-term obligations during the year consist of the following:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due in One Year
Net pension liability:					
STRS	$ 3,112,960	$ 518,892	$ -	$ 3,631,852	$ -
SERS	464,625	400,527	-	865,152	-
Total long-term obligations	$ 3,577,585	$ 919,419	$ -	$ 4,497,004	$ -

Net Pension Liability: See Note 6 for information on the School's net pension liability.

NOTE 11 - OPERATING LEASE

The School entered into a lease agreement on October 1, 2008, with Schoolhouse Finance, LLC to lease classroom space for the School. The term of the lease commenced October 1, 2008, and shall continue through June 30, 2023. Thereafter the lease shall automatically extend for two additional five year terms, unless written notice of intent not to extend is delivered by either party at least one-hundred-eighty days prior to the end of the then current lease term. The School shall pay to Schoolhouse Finance, LLC $696,960 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term. The base rent shall escalate annually on July 1 at a rate equal to the greater of the increase in the overall Consumer Price Index All-Urban Consumers, all items less food and energy, and three percent.

On March 12, 2009, an amendment was made to the lease that lowered the annual base rent payable to $642,721. The School made $814,181 in payments to Schoolhouse Finance, LLC during fiscal year 2017.

NOTE 12 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2017, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

Direct Expenses:	
Salaries and wages	
Instruction	$ 1,091,453
Support services	164,119
Administrative services	146,385
Fiscal/business services	56,600
Employees' benefits	
Instruction	460,970
Support services	17,902
Administrative services	54,340
Fiscal/business services	1,205
Purchased services	
Instruction	211,564
Support services	4,753
Administrative services	147,658
Fiscal/business services	7,500
Operations and maintenance	205,032
Pupil transportation	129,856
Support/food services	320,976
Non-instructional	7,490
Supplies and materials	
Instruction	31,428
Administrative services	38,096
Operations and maintenance	5,353
Capital outlay	
Instruction	9,288
Other direct costs	
Instruction	225,642
Administrative services	257,572
Fiscal/business services	5,204
Total expenses	$ 3,600,386

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the School. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

NOTE 13- CONTINGENCIES

A. Grants

The School 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 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 School at June 30, 2017.

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 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 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

In addition, the School's contracts with St. Aloysius and Imagine Schools, Inc. require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

C. Litigation

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

NOTE 14 - FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on May 11, 2010. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

NOTE 15 - JOINTLY GOVERNED ORGANIZATION

Miami Valley Educational Computer Association

The School is a participant in the Miami Valley Educational Computer Association (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, Highland, and Madison Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia, and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of MVECA consists of three Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. Imagine Schools, Inc., on behalf of the School, paid MVECA for services provided during the year. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

NOTE 16 - MANAGEMENT PLAN

The School had a negative $52,201 change in net position and a deficit net position of $3,801,285 at June 30, 2017. The deficit net position was a result of reporting the net pension liability and related deferred outflows of resources and deferred inflows of resources in accordance with GASB Statements No. 68 and 71, as described in Note 6.

NOTE 17 - RELATED PARTY TRANSACTIONS

Imagine Schools, Inc. and Schoolhouse Finance, LLC are both subsidiaries of Imagine Schools Non-Profit, Inc.

REQUIRED SUPPLEMENTARY INFORMATION

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
School's proportion of the net pension liability	0.01182050%	0.00814260%	0.00868300%	0.00868300%
School's proportionate share of the net pension liability	$ 865,152	$ 464,625	$ 439,442	$ 516,350
School's covered-employee payroll	$ 367,100	$ 245,137	$ 252,323	$ 184,805
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.67%	189.54%	174.16%	279.40%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

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

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

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
School's proportion of the net pension liability	0.01085009%	0.01126371%	0.01229007%	0.01229007%
School's proportionate share of the net pension liability	$ 3,631,852	$ 3,112,960	$ 2,989,370	$ 3,560,918
School's covered-employee payroll	$ 1,141,636	$ 1,162,464	$ 1,255,708	$ 1,221,469
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	318.13%	267.79%	238.06%	291.53%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

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

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

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST NINE FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 60,469	$ 51,394	$ 32,309	$ 34,972	$ 25,577	$ 17,674	$ 15,892	$ 33,401	$ 5,623
Contributions in relation to the contractually required contribution	(60,469)	(51,394)	(32,309)	(34,972)	(25,577)	(17,674)	(15,892)	(33,401)	(5,623)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 431,921	$ 367,100	$ 245,137	$ 252,323	$ 184,805	$ 131,405	$ 126,428	$ 246,684	$ 57,144
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

Note: The School began operations in fiscal year 2009; therefore, information prior to fiscal year 2009 is not applicable.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST NINE FISCAL YEARS

	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Contractually required contribution	$ 180,620	$ 159,829	$ 162,745	$ 163,242	$ 158,791	$ 131,631	$ 131,112	$ 57,297	$ 35,635
Contributions in relation to the contractually required contribution	(180,620)	(159,829)	(162,745)	(163,242)	(158,791)	(131,631)	(131,112)	(57,297)	(35,635)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 1,290,143	$ 1,141,636	$ 1,162,464	$ 1,255,708	$ 1,221,469	$ 1,012,546	$ 1,008,554	$ 440,746	$ 274,115
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Note: The School began operations in fiscal year 2009; therefore, information prior to fiscal year 2009 is not applicable.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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.

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 and (g) mortality among disable member 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.

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.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Federal Grantor/ *Pass-Through Grantor/* Program or Cluster Title	**Federal CFDA Number**	**Pass Through Grantor Number**	Total Federal Expenditures
U.S. Department of Agriculture			
Passed through Ohio Department of Education			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	N/A	$ 91,782
National School Lunch Program	10.555	N/A	193,645
Total Child Nutrition Cluster			285,427
Total U.S. Department of Agriculture			285,427
U.S. Department of Education			
Passed through State Department of Education			
Title I Grants to Local Education Agencies	84.010	S010A150035	495,323
Special Education Cluster:			
Special Education - Grants to States	84.027	H027A150111	83,124
Total Special Education Cluster			83,124
Improving Teacher Quality State Grants	84.367	S367A150034	110,114
Total U.S. Department of Education			688,561
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 973,988

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards.

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Klepinger Community School (the School) under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2. U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Klepinger Community School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Klepinger Community School.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: **INDIRECT COST RATE**

The Klepinger Community School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4: **CHILD NUTRITION CLUSTER**

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

NOTE 5: **MATCHING REQUIREMENTS**

Certain Federal programs require the School to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board
Klepinger Community School
Dayton, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Klepinger Community School, Montgomery County, Ohio, (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 22, 2017

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Members of the Board
Klepinger Community School
Dayton, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the Klepinger Community School, Montgomery County, Ohio's (the School) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the School's major federal program for the year ended June 30, 2017. The School's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Klepinger Community School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 22, 2017

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

1. SUMMARY OF AUDITOR'S RESULTS

2017(i)	Type of Financial Statement Opinion	Unmodified
2017(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2017(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2017(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2017(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2017(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2017(v)	Type of Major Program's Compliance Opinion	Unmodified
2017(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2017(vii)	Major Programs (list): Child Nutrition Cluster - CFDA #10.553 and #10.555	
2017(viii)	Dollar Threshold: Type A\B Program	Type A: $750,000 or more Type B: All others
2017(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

The prior audit report, as of June 30, 2016, included no citations, instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

Dave Yost · Auditor of State

KLEPINGER COMMUNITY SCHOOL

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
MARCH 29, 2018

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