**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**
**(AUDITED)**

***FOR THE FISCAL YEAR ENDED***
***JUNE 30, 2017***

**DAN LAMB, TREASURER**

Dave Yost • Auditor of State

Board of Directors
Madison Avenue School of Arts
40 Hill Road S
Pickerington, OH 43147

We have reviewed the *Independent Auditor's Report* of the Madison Avenue School of Arts, Lucas County, prepared by Julian & Grube, 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 Madison Avenue School of Arts is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

April 2, 2018

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**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments
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Independent Auditor's Report

Madison Avenue School of Arts
Lucas County
1511 Madison Avenue
Toledo, Ohio 43604

To the Governing Board:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Madison Avenue School of Arts, Lucas County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Madison Avenue School of Arts' basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Madison Avenue School of Arts, Lucas County as of June 30, 2017, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary Information*

Our audit was conducted to opine on the Madison Avenue School of Arts' basic financial statements taken as a whole.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the Madison Avenue School of Arts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Madison Avenue School of Arts' internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 19, 2017

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

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

The discussion and analysis of the Madison Avenue School of Arts (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 a deficit of $4,886,421 at June 30, 2017.

- The School had operating revenues of $4,632,674, operating expenses of $6,201,421 and non-operating revenues of $1,170,854 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 those assets. 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.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations.

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 | $ 154,336 | $ 138,750 |
| **Deferred outflows of resources** | 2,044,999 | 619,517 |
| **Liabilities** | | |
| Current liabilities | 165,401 | 141,866 |
| Non-current liabilities | 6,610,085 | 4,365,803 |
| Total liabilities | 6,775,486 | 4,507,669 |
| **Deferred inflows of resources** | 310,270 | 739,126 |
| **Net Position** | | |
| Unrestricted (deficit) | (4,886,421) | (4,488,528) |
| Total net position (deficit) | $ (4,886,421) | $ (4,488,528) |

During fiscal year 2015, 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 new 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 $4,886,421 compared to a deficit of $4,488,528 at June 30, 2016.

The School reported an intergovernmental receivable for grants at June 30, 2017 and June 30, 2016 in the amount of $121,854 and $129,105, respectively. As a result of the full-time equivalency (FTE) reviews by the Ohio Department of Education (ODE) at June 30, 2017 and June 30, 2016, accounts receivable was reported in the amount of $32,294 and $9,456, respectively, for State foundation revenue that was overpaid to Imagine Schools, Inc. and the Sponsor during fiscal years 2017 and 2016.

The School had accounts and intergovernmental payables of $165,401 and $141,866 for fiscal years 2017 and 2016, respectively, due to Imagine Schools, Inc. and other vendors. Included in intergovernmental payables reported at June 30, 2017 and June 30, 2016, was an amount of $41,402 and $10,507, respectively, due to ODE as a result of the FTE reviews for fiscal years 2017 and 2016.

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 | $ 4,632,674 | $ 4,799,882 |
| Total operating revenue | 4,632,674 | 4,799,882 |
| **Operating Expenses:** | | |
| Purchased services - management fees | 4,994,137 | 4,847,711 |
| Sponsorship fees | 135,372 | 141,918 |
| Legal | 23,958 | 22,866 |
| Professional services | 35,759 | 33,265 |
| Operating lease payments | 1,005,385 | 984,706 |
| Other | 6,810 | 8,918 |
| Total operating expenses | 6,201,421 | 6,039,384 |
| **Non-operating Revenues:** | | |
| Federal and State grants | 1,170,854 | 1,338,675 |
| Total non-operating revenues | 1,170,854 | 1,338,675 |
| Change in net position | (397,893) | 99,173 |
| Net position (deficit) at beginning of year | (4,488,528) | $ (4,587,701) |
| Net position (deficit) at end of year | $ (4,886,421) | $ (4,488,528) |

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 less State foundation revenue as a result of a decrease in student enrollment from 599 students in fiscal year 2016 to 544 students in fiscal year 2017. The School received Federal grant monies through the Child Nutrition Breakfast & Lunch, Title VI-B, Title I, Title I-SI, and Title II-A programs during fiscal year 2017. The School contracted with Imagine Schools, Inc. for management services for fiscal years 2017 and 2016 (see Note 9.B to the basic financial statements for detail).

***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, 1511 Madison Avenue, Toledo, Ohio 43604.

# BASIC
# FINANCIAL STATEMENTS

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash | $ | 188 |
| Receivables: | | |
| Accounts | | 32,294 |
| Intergovernmental | | 121,854 |
| Total assets | | 154,336 |
| **Deferred outflows of resources:** | | |
| Pension - STRS | | 1,283,964 |
| Pension - SERS | | 761,035 |
| Total deferred outflows of resources | | 2,044,999 |
| **Liabilities:** | | |
| Current liabilities: | | |
| Accounts payable | | 123,999 |
| Intergovernmental payable | | 41,402 |
| Total current liabilities | | 165,401 |
| Long-term liabilities: | | |
| Net pension liability | | 6,610,085 |
| Total liabilities | | 6,775,486 |
| **Deferred inflows of resources:** | | |
| Pension - STRS | | 310,270 |
| Total deferred inflows of resources | | 310,270 |
| **Net position:** | | |
| Unrestricted (deficit) | | (4,886,421) |
| Total net position (deficit) | $ | (4,886,421) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

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

| | |
|---|---|
| **Operating revenues:** | |
| State foundation . . . . . . . . . . . . . . . | $ 4,632,674 |
| Total operating revenues . . . . . . . . . . . . | 4,632,674 |
| **Operating expenses:** | |
| Purchased services - management fees . . . . | 4,994,137 |
| Sponsorship fees . . . . . . . . . . . . . . . | 135,372 |
| Legal . . . . . . . . . . . . . . . . . . . . . | 23,958 |
| Professional services . . . . . . . . . . . . . | 35,759 |
| Operating lease payments. . . . . . . . . . . | 1,005,385 |
| Other . . . . . . . . . . . . . . . . . . . . . | 6,810 |
| Total operating expenses. . . . . . . . . . . . . | 6,201,421 |
| Operating loss . . . . . . . . . . . . . . . . . . | (1,568,747) |
| **Non-operating revenues:** | |
| Federal and State grants. . . . . . . . . . . . | 1,170,854 |
| Total non-operating revenues . . . . . . . . . . | 1,170,854 |
| Change in net position. . . . . . . . . . . . . . | (397,893) |
| **Net position (deficit) at beginning of year. . .** | (4,488,528) |
| **Net position (deficit) at end of year . . . . . .** | $ (4,886,421) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

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

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from State foundation | $ 4,663,569 |
| Cash payments for purchased services - management fees | (4,633,040) |
| Cash payments for sponsorship fees | (136,614) |
| Cash payments for legal fees | (24,067) |
| Cash payments for professional services | (35,759) |
| Cash payments for operating lease | (1,005,385) |
| Cash payments for other expenses | (6,810) |
| Net cash used in operating activities | (1,178,106) |
| **Cash flows from noncapital financing activities:** | |
| Cash received from Federal and State grants | 1,178,105 |
| Net cash provided by noncapital financing activities | 1,178,105 |
| Net decrease in cash | (1) |
| **Cash at beginning of year** | 189 |
| **Cash at end of year** | $ 188 |
| **Reconciliation of operating loss to net cash used in operating activities:** | |
| Operating loss | $ (1,568,747) |
| Changes in assets, deferred outflows, liabilities, and deferred inflows: | |
| (Increase) in accounts receivable | (22,838) |
| (Increase) in deferred outflows - pensions | (1,425,482) |
| (Decrease) in accounts payable | (7,360) |
| Increase in intergovernmental payable | 30,895 |
| Increase in net pension liability | 2,244,282 |
| (Decrease) in deferred inflows - pensions | (428,856) |
| Net cash used in operating activities | $ (1,178,106) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 - DESCRIPTION OF THE SCHOOL

The Madison Avenue School of Arts (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School provides students in grades K-5 with instruction in core content areas and provides instruction in the visual arts, dance, and theatre. The School's mission is to help parents and guardians educate their children by creating learning communities of achievement and hope. 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") commencing on April 11, 2008 and ending on June 30, 2010. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2013. On May 29, 2013 the contract was renewed for a term of two years commencing on July 1, 2013 and ending on June 30, 2015. The contract was renewed for a term of three years commencing on July 1, 2015 and ending on June 30, 2018. 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 544 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 and all liabilities 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**

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. 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 outflows and liabilities and deferred inflows. 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. Intergovernmental Revenues**

The School currently participates in the State Foundation, Special Education, Targeted Assistance, K-3 Literacy, Facilities, 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 $4,632,674.

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 $1,170,854.

**J. Accrued Liabilities and Long-Term Obligations**

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

**K. 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.

**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 - ACCOUNTABILITY AND COMPLIANCE**

**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.

## NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 was $188 and the bank balance was $288. 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 accounts and intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full.

| **Intergovernmental receivables:** | Amount |
|---|---|
| Title VI-B | $ 21,567 |
| Title I | 87,470 |
| Title II-A | 12,817 |
| Total intergovernmental receivables | $ 121,854 |

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 $121,854 for 100 percent of any State and Federal grant monies uncollected or unpaid as of June 30, 2017.

An intergovernmental payable has been recorded at June 30, 2017 for the amount owed to ODE as a result of the full-time equivalent (FTE) enrollment reviews in the amount of $41,402. Accounts receivable in the amount of $32,294 has been reported for 78 percent of the amount of state foundation revenue overpaid 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.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***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.

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.

***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.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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 $95,272 for fiscal year 2017.

***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.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. 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 $183,161 for fiscal year 2017.

## NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The net pension liability was measured as of June 30, 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:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net pension liability prior measurement date | 0.01352300% | 0.01300488% | |
| Proportion of the net pension liability current measurement date | 0.02122920% | 0.01510561% | |
| Change in proportionate share | 0.00770620% | 0.00210073% | |
| Proportionate share of the net pension liability | $ 1,553,782 | $ 5,056,303 | $ 6,610,085 |
| Pension expense | $ 341,042 | $ 327,335 | $ 668,377 |

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 | $ 20,957 | $ 204,299 | $ 225,256 |
| Net difference between projected and actual earnings on pension plan investments | 128,163 | 419,810 | 547,973 |
| Changes of assumptions | 103,723 | - | 103,723 |
| Difference between School contributions and proportionate share of contributions/ change in proportionate share | 412,920 | 476,694 | 889,614 |
| School contributions subsequent to the measurement date | 95,272 | 183,161 | 278,433 |
| Total deferred outflows of resources | $ 761,035 | $ 1,283,964 | $ 2,044,999 |
| **Deferred inflows of resources** | | | |
| Difference between School contributions and proportionate share of contributions/ change in proportionate share | $ - | $ 310,270 | $ 310,270 |
| Total deferred inflows of resources | $ - | $ 310,270 | $ 310,270 |

$278,433 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 | $ 223,832 | $ 114,566 | $ 338,398 |
| 2019 | 223,740 | 114,568 | 338,308 |
| 2020 | 181,348 | 275,656 | 457,004 |
| 2021 | 36,843 | 285,743 | 322,586 |
| Total | $ 665,763 | $ 790,533 | $ 1,456,296 |

***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.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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. As a result of the actuarial experience study, 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.

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. A discount rate of 7.75 percent was used in the prior period measurement. 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.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***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 | $ 2,057,110 | $ 1,553,782 | $ 1,132,475 |

***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 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.75 percent, net of investment expenses |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA 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:

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

| 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% 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.

***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%) | Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| School's proportionate share of the net pension liability | $ 6,719,416 | $ 5,056,303 | $ 3,653,369 |

***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

Health Care Plan Description - Imagine Schools, Inc. on behalf of the School, contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School's surcharge obligation was $1,256.

The School's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $1,256, $5,779, and $6,377, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

### B. State Teachers Retirement System

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

**NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. 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, crime liability, excess/umbrella 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 |
| Crime liability | 1,000,000 |
| Excess/umbrella liability: | |
| Each occurrence | 15,000,000 |
| Aggregate | 15,000,000 |
| Retention | 10,000 |
| Personal property liability: | |
| Limit | 600,000 |
| 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 11, 2008 and ending on June 30, 2010 with St. Aloysius (the "Sponsor") for its establishment. On June 28, 2010, the contract was renewed commencing on July 1, 2010 and ending on June 30, 2013. On May 29, 2013 the contract was renewed for a term of two years commencing on July 1, 2013 and ending on June 30, 2015. The contract was renewed for a term of three years commencing on July 1, 2015 and ending on June 30, 2018. 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 $135,372 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 is equal to approximately 90 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 $4,994,137 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 and Comprehensive Continuous Improvement Planning consulting services. The School paid CSS $31,034 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 | $ 3,594,168 | $ 1,462,135 | $ - | $ 5,056,303 | $ - |
| SERS | 771,635 | 782,147 | - | 1,553,782 | - |
| Total long-term obligations | $ 4,365,803 | $ 2,244,282 | $ - | $ 6,610,085 | $ - |

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

**NOTE 11 - OPERATING LEASES**

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 $577,236 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, or three percent.

On March 5, 2009, an amendment was made to the lease that increased the annual base rent payable to $577,493. On June 8, 2011, an amendment was made to the lease that increased the annual base rent payable by $270,516 effective September 1, 2011 or the date Schoolhouse Finance, LLC receives a certificate of occupancy for the new building space. The School made $1,005,385 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 | $ 1,445,168 |
| Support services | 63,553 |
| Administrative services | 247,844 |
| Fiscal/business services | 62,237 |
| Operations and maintenance | 84,760 |
| Non-instructional | 40,220 |
| Employees' benefits | |
| Instruction | 588,938 |
| Support services | 17,206 |
| Administrative services | 118,056 |
| Fiscal/business services | 18,836 |
| Operations and maintenance | 32,502 |
| Non-instructional | 7,554 |
| Purchased services | |
| Instruction | 77,872 |
| Support services | 125,200 |
| Administrative services | 86,197 |
| Fiscal/business services | 13,533 |
| Operations and maintenance | 128,773 |
| Pupil transportation | 441,535 |
| Support/food services | 332,360 |
| Non-instructional | 1,397 |
| Supplies and materials | |
| Instruction | 24,218 |
| Support services | 102 |
| Administrative services | 10,648 |
| Operations and maintenance | 17,794 |
| Support/food services | 1,723 |
| Capital outlay | |
| Operations and maintenance | 2,825 |
| Other direct and indirect costs | |
| Instruction | 302,719 |
| Administrative services | 302,945 |
| Fiscal/business services | 8,408 |
| Operations and maintenance | 919 |
| Support/food services | 132 |
| Extracurricular | 975 |
| Total expenses | $ 4,607,149 |

## NOTE 12 - MANAGEMENT COMPANY EXPENSES - (Continued)

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 February 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 - MANAGEMENT PLAN

The School had a negative $397,893 change in net position and deficit net position of $4,886,421 at June 30, 2017. The deficit net position is primarily due to the net pension liability of $6,610,085, and deferred outflows of resources and deferred inflows of resources related to the net pension liability of $2,044,999 and $310,270, respectively at June 30, 2017. The net pension liability and related deferred outflows of resources and deferred inflows of resources are required to be reported in accordance with GASB Statements No. 68 and 71, as described in Note 6. The remaining deficit of $11,065 is a result of an intergovernmental payable due to ODE as a result of the fiscal year 2017 FTE adjustments and accounts payable at June 30, 2017. The FTE adjustments will be paid back to ODE through adjustments to fiscal year 2018 state foundation revenue and accounts payable will be paid from state foundation revenue as it becomes available. Management intends to continue to increase School enrollment and improve operating efficiencies.

## NOTE 16 - RELATED PARTY TRANSACTIONS

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

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# REQUIRED SUPPLEMENTARY INFORMATION

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

SCHEDULES OF 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 (1)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| School's proportion of the net pension liability | 0.02122920% | 0.01352300% | 0.01023100% | 0.01023100% |
| School's proportionate share of the net pension liability | $ 1,553,782 | $ 771,635 | $ 517,785 | $ 608,405 |
| School's covered payroll | $ 659,300 | $ 407,117 | $ 297,287 | $ 385,376 |
| School's proportionate share of the net pension liability as a percentage of its covered payroll | 235.67% | 189.54% | 174.17% | 157.87% |
| 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.

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

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

SCHEDULES OF 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 (1)

| | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|
| School's proportion of the net pension liability | 0.01510561% | 0.01300488% | 0.01483180% | 0.01483180% |
| School's proportionate share of the net pension liability | $ 5,056,303 | $ 3,594,168 | $ 3,607,607 | $ 4,297,358 |
| School's covered payroll | $ 1,589,400 | $ 1,393,886 | $ 1,515,400 | $ 1,610,369 |
| School's proportionate share of the net pension liability as a percentage of its covered payroll | 318.13% | 257.85% | 238.06% | 266.86% |
| 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.

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

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST NINE FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Contractually required contribution | $ 95,272 | $ 92,302 | $ 53,658 | $ 41,204 | $ 53,336 |
| Contributions in relation to the contractually required contribution | (95,272) | (92,302) | (53,658) | (41,204) | (53,336) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| School's covered payroll | $ 680,514 | $ 659,300 | $ 407,117 | $ 297,287 | $ 385,376 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 13.18% | 13.86% | 13.84% |

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

| 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|
| $ | 49,366 | $ | 39,865 | $ | 52,046 | $ | 8,224 |
| | (49,366) | | (39,865) | | (52,046) | | (8,224) |
| $ | - | $ | - | $ | - | $ | - |
| $ | 367,033 | $ | 317,144 | $ | 384,387 | $ | 83,577 |
| | 13.45% | | 12.57% | | 13.54% | | 9.84% |

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST NINE FISCAL YEARS

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Contractually required contribution | $ 183,161 | $ 222,516 | $ 195,144 | $ 197,002 | $ 209,348 |
| Contributions in relation to the contractually required contribution | (183,161) | (222,516) | (195,144) | (197,002) | (209,348) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| School's covered payroll | $ 1,308,293 | $ 1,589,400 | $ 1,393,886 | $ 1,515,400 | $ 1,610,369 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 14.00% | 13.00% | 13.00% |

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

| 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|
| $ | 138,411 | $ | 147,307 | $ | 114,894 | $ | 60,316 |
| | (138,411) | | (147,307) | | (114,894) | | (60,316) |
| $ | - | $ | - | $ | - | $ | - |
| $ | 1,064,700 | $ | 1,133,131 | $ | 883,800 | $ | 463,969 |
| | 13.00% | | 13.00% | | 13.00% | | 13.00% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

*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.

# SUPPLEMENTARY INFORMATION

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**MADISON AVENUE SCHOOL OF ARTS**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | (A) GRANT NUMBER | (B) CASH FEDERAL DISBURSEMENTS |
|---|---|---|---|---|
| | **U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION** | | | |
| | **Child Nutrition Cluster:** | | | |
| **(C)** | School Breakfast Program | 10.553 | N/A | $ 112,954 |
| **(C)** | National School Lunch Program | 10.555 | N/A | 196,063 |
| | **Total Child Nutrition Cluster** | | | 309,017 |
| | Fresh Fruit and Vegatable Program | 10.582 | N/A | 30,474 |
| | **Total U.S. Department of Agriculture** | | | 339,491 |
| | **U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION** | | | |
| | Title I Grants to Local Educational Agencies | 84.010 | N/A | 568,095 |
| | **Special Education Grant Cluster** | | | |
| | Special Education_Grants to States | 84.027 | N/A | 134,786 |
| | **Special Education Grant Cluster** | | | 134,786 |
| | Improving Teacher Quality State Grants | 84.367 | N/A | 97,893 |
| | **Total U.S. Department of Education** | | | 800,774 |
| | **Total Federal Financial Assistance** | | | $ 1,140,265 |

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**(A)** OAKS did not assign pass-through numbers for fiscal year 2017.

**(B)** This schedule includes the federal activity of the Madison Avenue School of Arts under programs of the federal government for the fiscal year ended June 30, 2017 and is prepared in accordance with the cash basis of accounting. This information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance)* . Because the schedule presents only a selected portion of the operations of the Madison Avenue School of Arts, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Madison Avenue School of Arts.

**(C)** Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.

**(D)** CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The Madison Avenue School of Arts has elected not to use the 10% de minimin indirect cost rate.

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Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

Madison Avenue School of Arts
Lucas County
1511 Madison Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Madison Avenue School of Arts, Lucas County, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Madison Avenue School of Arts' basic financial statements and have issued our report thereon dated December 19, 2017.

***Internal Control Over Financial Reporting***

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

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

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

Governing Board
Madison Avenue School of Arts

***Compliance and Other Matters***

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

***Purpose of this Report***

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 19, 2017

Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

## Independent Auditor's Report on Compliance With Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Madison Avenue School of Arts
Lucas County
1511 Madison Avenue
Toledo, Ohio 43604

To the Governing Board:

***Report on Compliance for the Major Federal Program***

We have audited the Madison Avenue School of Arts' compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Madison Avenue School of Arts' major federal program for the fiscal year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Madison Avenue School of Arts' major federal program.

***Management's Responsibility***

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

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

Governing Board
Madison Avenue School of Arts

***Opinion on the Major Federal Program***

In our opinion, the Madison Avenue School of Arts complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2017.

***Report on Internal Control Over Compliance***

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

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

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

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 19, 2017

**MADISON AVENUE SCHOOL OF ARTS**
**LUCAS COUNTY, OHIO**

**SCHEDULE OF FINDINGS**
***2 CFR § 200.515***
**JUNE 30, 2017**

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

## 2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**MADISON AVENUE SCHOOL OF ARTS**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**APRIL 12, 2018**