



Dave Yost • Auditor of State



**MADISONVILLE SMART ELEMENTARY  
HAMILTON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Statement of Net Position.....	7
Statement of Revenues, Expenses, and Changes in Net Position .....	8
Statement of Cash Flows .....	9
Notes to the Basic Financial Statements .....	11
Required Supplementary Information:	
Schedule of School's Proportionate Share of the Net Pension Liability - SERS .....	32
Schedule of School's Proportionate Share of the Net Pension Liability - STRS.....	33
Schedule of School's Contributions - SERS .....	34
Schedule of School's Contributions - STRS.....	35
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards .....	37

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Madisonville Smart Elementary  
Hamilton County  
4324 Homer Avenue  
Cincinnati, Ohio 45227

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Madisonville Smart Elementary, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Madisonville Smart Elementary, Hamilton County, Ohio, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 16 to the financial statements, as of June 30, 2017, the School reported a negative net position of (\$606,455), exclusive of pension related accounts. As of June 30, 2016, the School reported a negative net position of (\$434,758), exclusive of pension related accounts. Management has outlined their plan to address the deficit in net position. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

May 30, 2018

**Madisonville SMART Elementary**  
Hamilton County  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

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As management of the Madisonville SMART Elementary, formerly the Cincinnati College Preparatory Academy - East (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

### **Financial Highlights**

Key financial highlights for the School are as follows:

- Total net position of the School decreased \$158,004 in fiscal year 2017. Ending net position of the School was approximately negative \$3.6 million, compared with approximately negative \$3.4 million at June 30, 2016.
- Total assets decreased by \$75,876 and total liabilities increased by \$225,658 from the prior fiscal year end.
- The School's operating loss for fiscal year 2017 was \$659,771 compared with an operating loss of \$730,879 reported for the prior year.

### **Using this Annual Financial Report**

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

#### *Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position*

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during the fiscal year?" The statement of net position includes all assets and deferred outflows of resources and all liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net position; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**Madisonville SMART Elementary**  
 Hamilton County  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2017

The statement of revenues, expenses and changes in net position reports the changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

**Financial Analysis**

Table 1 provides a summary of the School's net position at June 30, 2017 compared to prior fiscal year.

**Table 1**  
**Net Position at Year End**

Assets:	<b>2017</b>	<b>2016</b>
Current and Other Assets	\$ 161,335	\$ 196,006
Capital Assets, Net	603,229	644,434
Total Assets	764,564	840,440
Deferred Outflows of Resources	533,541	271,737
Liabilities:		
Current Liabilities	1,371,019	1,116,390
Noncurrent Liabilities	3,038,720	3,067,691
Total Liabilities	4,409,739	4,184,081
Deferred Inflows of Resources	455,089	336,815
Net Position:		
Net Investment in Capital Assets	231,857	266,618
Restricted	-	31,268
Unrestricted	(3,798,580)	(3,706,605)
Total Net Position	\$ (3,566,723)	\$ (3,408,719)

Current Liabilities increased significantly compared to the same amount reported for fiscal year 2016. This increase is primarily the result of increases in accounts payable and notes payable.

Deferred Outflows of Resources and Deferred Inflows of Resources both increased significantly in comparison with the prior fiscal year-end. These increases are primarily the result of a change in actuarial assumptions and the difference between expected and actual investment returns, as reported by the pension systems, as well as a decrease in the School's proportionate share.



**Madisonville SMART Elementary**  
 Hamilton County  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2017

**Financial Analysis**

The total net position reported for fiscal year 2017 decreased by \$158,004. Table 2 shows the change in net position for the fiscal year ended June 30, 2017 compared to prior fiscal year.

**Table 2**  
**Changes in Net Position**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenues:</b>		
Unrestricted Grants-in-Aid	\$ 1,534,021	\$ 1,654,462
Restricted Grants-in-Aid	134,134	122,920
Total Operating Revenues	1,668,155	1,777,382
<b>Operating Expenses:</b>		
Salaries and Wages	939,551	993,857
Fringe Benefits	229,920	257,768
Purchased Services	1,026,888	1,069,996
Materials and Supplies	69,437	86,816
Depreciation	42,305	55,652
Other	19,825	44,172
Total Operating Expenses	2,327,926	2,508,261
Operating Loss	(659,771)	(730,879)
<b>Nonoperating Revenues and Expenses</b>		
Federal and State Grants	484,331	550,749
Donations and Contributions	17,371	112
Other Nonoperating Revenues	65	51
Interest Expense	(11,754)	(17,396)
Interest Expense Forgiven	11,754	17,396
Total Nonoperating Revenues and Expenses	501,767	550,912
Change in Net Position	(158,004)	(179,967)
Net Position, Beginning of Year	(3,408,719)	(3,228,752)
Net Position, End of the Year	\$ (3,566,723)	\$ (3,408,719)

Operating Revenues decreased due to student enrollment decreasing from 234 in the prior year to 211 in fiscal year 2017.

Total Operating Expenses also decreased in comparison with the prior fiscal year. This decrease is the result of declining enrollment and a reduction in staff from 25 in fiscal year 2016 to 22 in fiscal year 2017.

**Madisonville SMART Elementary**  
Hamilton County  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

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**Capital Assets**

At the end of fiscal year 2017, the School had \$603,229 invested in Capital Assets, Net, a decrease of \$41,205 in comparison with the prior fiscal year. See Note 5 of the basic financial statements for additional details.

**Debt**

At fiscal year-end, the School's notes payable balance was \$363,950, the same amount reported one year ago. See Note 6 of the basic financial statements for additional details.

**Contacting the School**

This financial report is designed to provide a general overview of the finances of the Madisonville SMART Elementary and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Madisonville SMART Elementary, 4324 Homer Ave., Cincinnati, Ohio 45227.

**MADISONVILLE SMART ELEMENTARY  
HAMILTON COUNTY**

STATEMENT OF NET POSITION  
AS OF JUNE 30, 2017

**Assets:**

Current Assets

Cash and Cash Equivalents	\$ 91,048
Intergovernmental Receivables	70,287
Total Current Assets	161,335

Noncurrent Assets

Capital Assets, Net of Accumulated Depreciation	603,229
Total Noncurrent Assets	603,229

Total Assets

\$ 764,564

**Deferred Outflows of Resources:**

Pension	\$ 533,541
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**Liabilities:**

Current Liabilities

Accounts Payable	\$ 855,448
Accrued Wages and Benefits Payable	93,887
Intergovernmental Payable	21,684
Accrued Interest Payable	28,628
Notes Payable	371,372
Total Current Liabilities	1,371,019

Noncurrent Liabilities:

Net Pension Liability	3,038,720
Total Noncurrent Liabilities	3,038,720

Total Liabilities

\$ 4,409,739

**Deferred Inflows of Resources:**

Pension	\$ 455,089
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**Net Position:**

Net Investment in Capital Assets	\$ 231,857
Unrestricted	(3,798,580)
Total Net Position	\$ (3,566,723)

See accompanying notes to the basic financial statements.

**MADISONVILLE SMART ELEMENTARY  
HAMILTON COUNTY**

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

<b>Operating Revenues:</b>	
Unrestricted Grants-in-Aid	\$ 1,534,021
Restricted Grants-in-Aid	134,134
Total Operating Revenues	<u>1,668,155</u>
 <b>Operating Expenses:</b>	
Salaries and Wages	939,551
Fringe Benefits	229,920
Purchased Services	1,026,888
Materials and Supplies	69,437
Depreciation	42,305
Other	19,825
Total Operating Expenses	<u>2,327,926</u>
 Operating Loss	 <u>(659,771)</u>
 <b>Non-Operating Revenues (Expenses):</b>	
Federal Grant Revenue	482,531
State Grant Revenue	1,800
Donations and Contributions	17,371
Other Non-Operating Revenues	65
Interest Expense	(11,754)
Interest Expense Forgiven	11,754
Total Non-Operating Revenues (Expenses)	<u>501,767</u>
 Change in Net Position	 (158,004)
 Net Position Beginning of Year	 <u>(3,408,719)</u>
Net Position End of Year	<u>\$ (3,566,723)</u>

See accompanying notes to the basic financial statements.

**MADISONVILLE SMART ELEMENTARY  
HAMILTON COUNTY**

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

Cash Flows from Operating Activities:	
Received from State of Ohio	\$ 1,697,631
Payments to Employees for Services and Benefits	(1,233,985)
Payments to Suppliers for Goods and Services	(954,424)
Payments to Other	<u>(19,825)</u>
<b>Net Cash Used for Operating Activities</b>	<b><u>(510,603)</u></b>
Cash Flows from Noncapital Financing Activities:	
Received from Federal Grants	486,452
Received from State Grants	1,800
Received from Donations and Contributions	500
Received from Other	<u>65</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>488,817</u></b>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	<u>(1,100)</u>
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b><u>(1,100)</u></b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(22,886)</b>
Cash and Cash Equivalents at Beginning of Year	<u>113,934</u>
Cash and Cash Equivalents at End of Year	<b><u>\$ 91,048</u></b>

See accompanying notes to the basic financial statements.

**MADISONVILLE SMART ELEMENTARY  
HAMILTON COUNTY**

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

Reconciliation of Operating Loss to Net Cash  
Used for Operating Activities:

Operating Loss	\$ (659,771)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	42,305
Changes in Assets and Liabilities:	
Intergovernmental Receivable	7,864
Accounts Payable	142,516
Accrued Wages and Benefits	(32,157)
Intergovernmental Payable	2,333
Net Pension Liability and Related	(13,693)
<b>Net Cash Used for Operating Activities</b>	<b><u>\$ (510,603)</u></b>

**Schedule of Non-Cash Activities:**

During fiscal year 2017, interest forgiven on notes payable totaled \$11,754.

See accompanying notes to the basic financial statements.

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 1. Description of the School and Reporting Entity:

Madisonville SMART Elementary, formerly Cincinnati College Preparatory Academy East (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through sixth grade through customizing learning for each child. The School, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. 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 had one fiscal service provider during the 2017 fiscal year, Mangen & Associates. Douglas Mangen served as the Certified Treasurer during the entire 2017 fiscal period. The St. Aloysius Orphanage was the School's sponsor in fiscal year 2017. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 4 non-certified and 18 certificated full time teaching personnel who provide services to 211 students.

The School entered into a service agreement with Mangen & Associates to provide certain academic program development and support, operations management, CCIP administration, EMIS/SOES/CRRS administration and financial/accounting services, including performing all duties required of the Treasurer of the School (See Note 11). The School also entered into a service agreement with Metropolitan Educational Technology Association (META Solutions) for technology-related services. The META Solutions board of directors consists of twelve voting members made up of twelve superintendents from the META Solutions district membership.

### 2. Summary of Significant Accounting Policies:

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

#### A. Basis of Presentation

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

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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2. Summary of Significant Accounting Policies (Continued):

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources is defined as net position. The statement of revenues, expenses and changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated biannually.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School maintains a capitalization threshold of \$1,000. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimate Life</u>
Buildings	30 years
Furniture, Fixtures, and Equipment	5 years
Building Improvements	5 years



## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 2. Summary of Significant Accounting Policies (Continued):

#### F. Estimates

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

#### G. Intergovernmental Revenues

The School is a participant in the State Foundation Program. In addition, the State distributes among all public schools, a percentage of proceeds received from the tax on gross casino revenue, to be used to support primary and secondary education. Foundation funding and casino revenues are both recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

#### H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program, facilities funding, economic disadvantaged funding, and funds distributed from the State's proceeds of the tax on gross casino revenue. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies, depreciation and other.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings and expense, if any, and contributions comprise the non-operating revenues and expenses of the School.

#### I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of fiscal year-end, including:

Wages and Benefits Payable – salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2017 contract.

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2017.

Intergovernmental Payable - payments made after year-end for the Schools' share of retirement contributions and Medicare associated with services rendered during the fiscal year.

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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2. Summary of Significant Accounting Policies (Continued):

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions. These deferred outflows of resources related to pensions are explained in Note 8.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. This deferred inflow of resources related to pension is explained in Note 8.

K. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Investment in Capital Assets, consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on their use 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 are available.

M. Economic Dependency

The School receives nearly 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

N. Pensions

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

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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3. Deposits:

At June 30, 2017, the carrying amount of the School's deposits was \$91,048 and the bank balance was \$100,670. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

4. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. Intergovernmental receivables at June 30, 2017 consisted of pension overpayments and federal grants.

5. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital Assets:</b>				
Building and Building Improvements	\$ 658,398	\$ -	\$ -	\$ 658,398
Furniture and Equipment	107,121	1,100	-	108,221
Vehicles	38,528	-	-	38,528
Total Capital Assets	<u>804,047</u>	<u>1,100</u>	<u>-</u>	<u>805,147</u>
<b>Less Accumulated Depreciation:</b>				
Building and Building Improvements	(56,258)	(23,777)	-	(80,035)
Furniture and Equipment	(91,797)	(10,822)	-	(102,619)
Vehicles	(11,558)	(7,706)	-	(19,264)
Total Accumulated Depreciation	<u>(159,613)</u>	<u>(42,305)</u>	<u>-</u>	<u>(201,918)</u>
<b>Net Capital Assets</b>	<u>\$ 644,434</u>	<u>\$ (41,205)</u>	<u>\$ -</u>	<u>\$ 603,229</u>

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

6. Long-Term Obligations:

The changes in the School's long-term obligation during the fiscal year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable	\$ 363,950	\$ -	\$ -	\$ 363,950	\$ 363,950
Note Premium	13,866	-	(6,444)	7,422	7,422
Net Pension Liability (See Note 8)	2,908,883	129,837	-	3,038,720	-
Total	<u>\$ 3,286,699</u>	<u>\$ 129,837</u>	<u>\$ (6,444)</u>	<u>\$ 3,410,092</u>	<u>\$ 371,372</u>

In fiscal year 2015, the School entered into a Promissory Note with Mangen Family Foundation to secure capital funds for the purchase of the school building located at 4324 Homer Avenue. The purchase was approved for \$630,941. The Promissory Note with the Mangen Family Foundation is collateralized by the property.

The note carries an interest rate of 0%; however, interest has been imputed at 5%, resulting in a note premium at issuance totaling \$36,050. The note premium will be amortized over the life of the note. The note has no required schedule of payment; however, the note has a maturity date of January 1, 2018.

Assuming the School pays the debt by the maturity date, debt-service-to-maturity requirements to retire the note is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$363,950</u>	<u>\$6,461</u>	<u>\$370,411</u>

7. Risk Management:

A. Property and Liability - 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. For the year ended June 30, 2017, the School contracted with the McGowan Governmental UW for \$3,000,000 (aggregate) general liability insurance coverage. There was no significant reduction in coverage during the fiscal year. Settlement amounts did not exceed coverage amounts in each of the last three fiscal years.

B. Workers' Compensation - The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is determined by the State.

C. Employee Insurance Benefits - The School utilizes Dental Care Plus, and United HealthCare Insurance Co. to provide dental, health, life, accidental death and dismemberment insurance benefits to School employees.

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 8. Defined Benefit Pension Plans:

#### ***Net Pension Liability***

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

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The District 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. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases 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](http://www.ohsers.org) under Employers/Audit Resources.

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

8. Defined Benefit Pension Plans (continued):

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District 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 allocation to pension, death benefits, and Medicare B was 14 percent. There was no allocation to the Health Care Fund for fiscal year 2017.

The School’s contractually required pension contribution to SERS was \$30,669 for fiscal year 2017 of which the entire amount has been paid.

***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](http://www.strsoh.org).

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 8. 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, 2015, 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 31 years of service regardless of age. Age and service requirements 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.

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

8. Defined Benefit Pension Plans (continued):

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and was increased one percent each year until it reached 14 percent on July 1, 2016. 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 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$99,206 for fiscal year 2017 of which the entire amount has been paid.

***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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$517,737	\$2,520,983	\$3,038,720
Proportion of the Net Pension Liability-2017	0.0070738%	0.00753139%	
Proportion of the Net Pension Liability-2016	<u>0.0072949%</u>	<u>0.00901915%</u>	
Change in Proportionate Share	<u>-0.0002211%</u>	<u>-0.00148776%</u>	



**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

8. Defined Benefit Pension Plans (continued):

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 6,983	\$ 101,860	\$ 108,843
Changes of assumptions	34,562	-	34,562
Net difference between projected and actual earnings on pension plan investments	42,705	209,310	252,015
Changes in proportion and differences between School contributions and proportionate share of contributions	8,246	-	8,246
School contributions subsequent to the measurement date	<u>30,669</u>	<u>99,206</u>	<u>129,875</u>
Total Deferred Outflows of Resources	<u>\$ 123,165</u>	<u>\$ 410,376</u>	<u>\$ 533,541</u>
<b>Deferred Inflows of Resources</b>			
Changes in proportion and differences between School contributions and proportionate share of contributions	<u>\$ 8,034</u>	<u>\$ 447,055</u>	<u>\$ 455,089</u>
Total Deferred Inflows of Resources	<u>\$ 8,034</u>	<u>\$ 447,055</u>	<u>\$ 455,089</u>

\$129,875 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$22,000	(\$70,257)	(\$48,257)
2019	21,969	(70,256)	(48,287)
2020	28,217	10,061	38,278
2021	<u>12,276</u>	<u>(5,433)</u>	<u>6,843</u>
Total	<u>\$84,462</u>	<u>(\$135,885)</u>	<u>(\$51,423)</u>

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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8. Defined Benefit Pension Plans (continued):

***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	3.25 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

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

The most recent experience study was completed June 30, 2015.

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

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

8. Defined Benefit Pension Plans (continued):

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

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

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School's proportionate share of the net pension liability	\$685,451	\$517,737	\$377,353

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

8. Defined Benefit Pension Plans (continued):

***Actuarial Assumptions - STRS***

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

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

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

***Changes Between Measurement Date and Report Date*** In March 2017, the STRS Board adopted certain assumptions 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 District's net pension liability is expected to be significant.

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:

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

**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

8. Defined Benefit Pension Plans (continued):

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$3,350,182	\$2,520,983	\$1,821,505

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by School Employees Retirement System or State Teachers Retirement System have an option to choose Social Security. As of June 30, 2017, no members of the Board of Education have elected Social Security. The School's liability is 6.2 percent of wages paid.

9. Post-employment Benefits:

**A. School Employees Retirement System**

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

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

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 9. Post-employment Benefits (continued):

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. District contributions assigned to health care, including the surcharge, for the years ended June 30, 2017, 2016, and 2015 were \$1,733, \$837 and \$3,240, respectively. The entire amount has been contributed for fiscal years 2016 and 2015. For fiscal year 2017, the entire amount is reported as an intergovernmental payable.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports on SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

#### ***B. State Teachers Retirement System***

Plan Description – The District participates to the cost sharing multiple-employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care.

The District's contractually required health care contributions to STRS for fiscal years 2017, 2016, and 2015 were \$0, \$0, and \$0, respectively. The entire amount has been contributed for each fiscal year.

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 10. Contingencies:

#### A. Grants and Student Attendance Data Review

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2017, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.

#### B. Full-Time Equivalency Reviews

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017 and determined the School was overpaid by \$7,372. This amount is reported as intergovernmental payable on the Statement of Net Position.

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 payable of, receivable to, the School.

In addition, the School's contract with their Sponsor requires 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.

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 11. Contracted Fiscal Services:

The School is a party to a management services agreement with Mangen & Associates (M&A) School Resource Center, which is an education services organization, to perform the following services:

- **Treasurer Services, Financial Management, EMIS/SOES and CCIP Administration**, including required documents for state and federal governments, basic accounting reports to School staff and Board, financial management support services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, resource call support, EMIS/SOES setup, performance, maintenance, oversight, and input of financial data directly into the EMSI and SOES subsystems, and all areas of CCIP application, management, fund retrieval and consolidated application allocation reviews tailored specifically toward the School's needs.

The contract is for a three-year period beginning on the first day of July, 2015 and ending on June 30, 2018. Payments for these services during fiscal year 2017 totaled \$60,750. In addition, the School has recorded a payable for services in the amount of \$822,642 for services provided.

### 12. Contracted Instruction Development and Operations Administration:

The School is a party to a management services agreement with Miniya Academies to perform the following services:

- **Education Program Management**, including curriculum development, teacher recruitment and recommendation for selection, teacher professional development, instruction support, program assessment and evaluation, instruction procedures, student discipline, special education and other functions performed by school leaders in Ohio public schools.
- **School Operations Management**, including oversight of facilities, technology, human resources, office administration, staff recruitment and recommendation for selection, staff training, operations oversight and refinement, program assessment and evaluation, procedure development, and other functions performed by typical school operations managers in Ohio public schools.

The contract is for a three-year period beginning on the first day of July, 2016 and ending on June 30, 2019. Payments for these services during fiscal year 2017 totaled \$155,081. In addition, the School has recorded a payable for services in the amount of \$17,982 for services provided.

### 13. Related Party Transaction:

Mangen and Associates was under contract to provide education program management, school operations management, treasurer services, financial management, and EMIS, SOES and CCIP administration, as described in Note 12. In addition, the Mangen Family Foundation has loaned funds to the School, as described in Note 6. Mangen and Associates and Mangen Family Foundation are related parties.



**MADISONVILLE SMART ELEMENTARY**

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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14. Other Purchased Services:

During the fiscal year ended June 30, 2017, purchased service expenses for services rendered by various vendors were as follows:

Management Services	\$	386,964
Instructional Services		49,095
Health Services		10,697
Legal Services		5,652
Travel and Meetings		546
Professional and Technical Services		188,833
Garbage Removal		57,759
Rentals		48,783
Utilities		87,167
Contracted Food Services		174,779
Advertising		315
Repairs and Maintenance		708
Property Services		14,048
Postage Services		1,542
Total	\$	<u>1,026,888</u>

15. Changes in Accounting Principles:

For fiscal year 2017, the School implemented *GASB Statement No. 77 "Tax Abatement Disclosures"* which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government's ability to raise resources in the future, by reporting (1) the government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 78 "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans"* which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) 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 (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 79 "Certain External Investment Pools and Pool Participants"* which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have an effect on the financial statements of the School.

## MADISONVILLE SMART ELEMENTARY

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### 15. Changes in Accounting Principles (continued):

For fiscal year 2017, the School implemented *GASB Statement No. 80 "Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14"* which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 82 "Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73"* which 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 plan member contribution requirements. The implementation of this statement did not have an effect on the financial statements of the School.

### 16. Management's Plan to Address Deficit Net Position

At June 30, 2017, the School reported total assets of \$764,564 and current liabilities of \$1,371,019, resulting in a negative net position of \$606,455, exclusive of pension related accounts. For the year ended June 30, 2016, the School reported total assets of \$840,440, current liabilities of \$1,116,390, and non-current notes payable of \$158,808, resulting in a negative net position of \$434,758, exclusive of pension related accounts.

The Management's plan includes four primary areas of focus: (1) grow current student enrollment, (2) continue return-on investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. By March 2018, the Management Team had succeeded in making progress in priority areas 2-4. The School's enrollment remains a concern.

The MSE Team (Board, Management, Teachers and Staff) will continue directing a significant amount of time and energy toward making stronger family connections to expand the awareness of the School's high academic performance and grow future student enrollment. In addition, financial planning will continue to focus on ROI confirmation for all purchases, trimming costs through process improvements and continued spending restrictions for any purchases not directly aligned to the School's instruction program.

During fiscal year 2017, the School remained current on all outstanding payables with the exception of its Management Company, Mangan & Associates (M&A). The objective for fiscal year 2018 through 2022 is to pay off a portion of the amount owed to M&A and the Mangan Family Foundation when cash flow is adequate to cover these payments while leaving enough cash to sustain a high-quality instruction program for MSE students. The School's Board adopted a five-year balanced budget for FY19- FY22 which includes a plan for the sustaining payments toward the loan balance to the Mangan Family Foundation and the M&A outstanding payable. The long-term objective is to build an unencumbered cash reserve equal to three months of core operating expenditures to meet ongoing cash flow requirements without the need for an outside loan or any philanthropic contributions.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MADISONVILLE SMART ELEMENTARY  
SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

**LAST FOUR FISCAL YEARS (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's Proportion of the Net Pension Liability	0.0070738%	0.0072949%	0.006979%	0.006979%
School's Proportionate Share of the Net Pension Liability	\$ 517,737	\$ 416,254	\$ 353,203	\$ 415,019
School's Covered-Employee Payroll	\$ 223,711	\$ 220,078	\$ 198,295	\$ 222,486
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	231.43%	189.14%	178.12%	186.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

**MADISONVILLE SMART ELEMENTARY  
SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

**LAST FOUR FISCAL YEARS (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's Proportion of the Net Pension Liability	0.00753139%	0.00901915%	0.00965725%	0.00965725%
School's Proportionate Share of the Net Pension Liability	\$ 2,520,983	\$ 2,492,629	\$ 2,348,977	\$ 2,798,087
School's Covered-Employee Payroll	\$ 763,897	\$ 681,526	\$ 1,030,266	\$ 1,171,754
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	330.02%	365.74%	228.00%	238.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

**MADISONVILLE SMART ELEMENTARY  
SCHEDULE OF SCHOOL CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

**LAST SIX FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 30,669	\$ 31,320	\$ 29,006	\$ 27,484	\$ 30,792	\$ 36,448
Contributions in relation to the contractually required contribution	\$ 30,669	\$ 31,320	\$ 29,006	\$ 27,484	\$ 30,792	\$ 36,448
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 219,066	\$ 223,711	\$ 220,078	\$ 198,295	\$ 222,486	\$ 270,993
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%

(1) Fiscal year 2012 was the School's first year of operation.

**MADISONVILLE SMART ELEMENTARY  
SCHEDULE OF SCHOOL CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

**LAST SIX FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 99,206	\$ 106,945	\$ 95,414	\$ 133,935	\$ 152,328	\$ 131,482
Contributions in relation to the contractually required contribution	\$ 99,206	\$ 106,945	\$ 95,414	\$ 133,935	\$ 152,328	\$ 131,482
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 708,611	\$ 763,897	\$ 681,526	\$ 1,030,266	\$ 1,171,754	\$ 1,011,403
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%

(1) Fiscal year 2012 was the School's first year of operation.

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# Dave Yost • Auditor of State

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

Madisonville Smart Elementary  
Hamilton County  
4324 Homer Avenue  
Cincinnati, Ohio 45227

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Madisonville Smart Elementary, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 30, 2018, wherein we noted that the School reported a negative net position, exclusive of pension related accounts, at June 30, 2017.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

May 30, 2018



# Dave Yost • Auditor of State

**MADISONVILLE SMART ELEMENTARY**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 12, 2018**