



INDEPENDENT AUDITOR'S REPORT

PHOENIX COMMUNITY LEARNING CENTER

HAMILTON COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



Dave Yost • Auditor of State

Board of Directors
Phoenix Community Learning Center
6640 Poe Ave Ste 400
Dayton, OH 45414

We have reviewed the *Independent Auditor's Report* of Phoenix Community Learning Center, Hamilton County, prepared by Richardson & Associates, LLC, 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. Phoenix Community Learning Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 23, 2018

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PHOENIX COMMUNITY LEARNING CENTER

HAMILTON COUNTY

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366 Ludlow Ave| Cincinnati, Ohio 45220

To the Board of Directors
Phoenix Community Learning Center
Hamilton County
3595 Washington Avenue
Cincinnati, Ohio 45229

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Phoenix Community Learning Center, Hamilton County, Ohio (the School), as of and for the fiscal 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We 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 obtain reasonable assurance the financial statements are free from material misstatement.

An audit requires obtaining evidence about the financial statements 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 the overall presentation of the financial statement.

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

Phoenix Community Learning Center
Hamilton County
Independent Auditor's Report
For the Fiscal Year Ended June 30, 2017
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Phoenix Community Learning Center, Hamilton County, Ohio, as of June 30, 2017, and the respective changes in financial position and its cash flows thereof 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 that the *Management's Discussion and Analysis*, the *Schedules of the School's Proportionate Share of the Net Pension Liability – School Employees Retirement System of Ohio* and *State Teachers Retirement System of Ohio*, and *Schedules of School contributions - School Employees Retirement System of Ohio* and *State Teachers Retirement System of Ohio*, listed in the table of contents, to supplement the basic financial statements. Although such information is not a 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Richardson & Associates, LLC

Richardson and Associates, LLC
Cincinnati, Ohio
December 13, 2017

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**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO**

Management Discussion and Analysis

June 30, 2017

Unaudited

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The assets of the PCLC exceeded its liabilities (less net pension liability and related deferred outflows/inflows) at year-end by \$1,240,730.
- The PCLC reports the financial statements under GASB 68 which reduces the overall net position to (\$2,126,318). The PCLC is required to report a net pension liability of \$4,234,090 which is one of the components that significantly reduces the PCLC net position. Please see detailed discussion, starting on page 6.
- In total, net position increased by \$302,574.
- Total liabilities (excluding net pension liability) increased by \$1,148,245 as the PCLC entered into a new SELF loan to renovate the facility for additional students
- The PCLC provides service to 469 (FTE) students, an increase from 377 students.

Using This Financial Report

This financial report contains the basic financial statements of the PCLC, as well as the Management's Discussion and Analysis, notes to the basic financial statements and required supplementary information. 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 PCLC reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO**

Management Discussion and Analysis

June 30, 2017

Unaudited

Statement of Net Position

The statement of net position answers the question, “How did we do financially during the fiscal year?” This statement includes all assets, deferred outflows of resources, 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 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 PCLC’s net position, however, in evaluating the overall position and financial viability of the PCLC, non-financial information such as the condition of the PCLC building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The following table presents a condensed summary of the PCLC’s overall financial position at June 30, 2017 and June 30, 2016.

	2017	2016	Change
Current and other assets	\$1,310,018	\$842,367	\$467,651
Capital assets	4,471,978	3,369,466	1,102,512
Total assets	<u>5,781,996</u>	<u>4,211,833</u>	<u>1,570,163</u>
Deferred Outflows of Resources	<u>960,135</u>	<u>422,479</u>	<u>537,656</u>
Current liabilities	482,633	3,393,021	(2,910,388)
Long term liabilities			
Loans Payable	4,058,633	0	4,058,633
Net Pension Liability	4,234,090	3,277,236	956,854
Total liabilities	<u>8,775,356</u>	<u>6,670,257</u>	<u>2,105,099</u>
Deferred Inflows of Resources	<u>93,093</u>	<u>392,947</u>	<u>(299,854)</u>
Net position:			
Net investment in capital assets	282,478	234,872	47,606
Restricted	220,608	0	220,608
Unrestricted	(2,629,404)	(2,663,764)	34,360
Total net position	<u>(\$2,126,318)</u>	<u>(\$2,428,892)</u>	<u>\$302,574</u>

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO**

Management Discussion and Analysis

June 30, 2017

Unaudited

The PCLC 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 PCLC’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 PCLC’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 PCLC 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.

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HAMILTON COUNTY, OHIO
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June 30, 2017
Unaudited

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 PCLC'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.

The increase for current assets resulted from the PCLC seeing the cash balance increase by \$294,437 with another \$220,608 remaining from the loan proceeds reported as restricted cash. The capital assets increased with the renovation project underway and reported as construction in progress.

The total liabilities, excluding net pension liability, increased by \$1,148,245 as the PCLC took out a second loan for renovation project.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Management Discussion and Analysis
June 30, 2017
Unaudited

Statement of Revenues, Expenses, and Changes in Net Position

The following table represents a condensed summary of the PCLC's activities for the years ended June 30, 2017 and 2016.

	2017	2016	Change
Revenues:			
Operating revenues:			
State Foundation	\$3,539,874	\$2,847,692	\$692,182
Tuition and Fees	540	1,215	(675)
Other operating revenues	711	2,590	(1,879)
Non-operating revenues:			
Federal grants	717,778	729,141	(11,363)
State grants	4,838	4,589	249
Total revenues	4,263,741	3,585,227	678,514
Expenses:			
Operating expenses:			
Salaries and wages	1,676,686	1,391,436	285,250
Fringe benefits	636,052	353,451	282,601
Purchased services:			
Professional and technical services	456,894	366,933	89,961
Property services	196,737	166,338	30,399
Communications	48,200	103,854	(55,654)
Utilities	58,383	48,055	10,328
Food Service	380,468	304,379	76,089
Other	8,189	2,345	5,844
Materials and supplies	129,845	81,672	48,173
Depreciation	88,437	129,094	(40,657)
Other expenses	38,843	43,288	(4,445)
Non-operating expenses:			
Interest and fiscal charges	242,433	211,032	31,401
Total expenses	3,961,167	3,201,877	759,290
Change in net position	302,574	383,350	(\$80,776)
Ending Net position	(\$2,126,318)	(\$2,428,892)	

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Management Discussion and Analysis
June 30, 2017
Unaudited

Revenues increased almost 19% as the PCLC received more foundation revenue with the FTE counts increasing over 24% although grant funding was actually down slightly. Overall the PCLC’s expenses were up almost 24%. The PCLC saw salaries increase by \$285,250 with the additional students leading to more staff. The fringe benefits increased by \$282,601 as the PCLC recognized pension expense from the various GASB 68 amortizations.

Capital Assets

At June 30, 2017, the PCLC had \$4,471,978 invested in a broad range of capital assets, including land, construction in progress, buildings, furniture, and equipment.

Capital Assets at Year-End (Net of Depreciation)

	2017	2016
Land	\$287,700	\$287,700
Construction in progress	1,185,123	0
Buildings	2,981,535	3,062,181
Equipment and furniture	17,620	19,585
Total	\$4,471,978	\$3,369,466

The PCLC had over \$1.1 million of additions for the current year related to the renovation project. See Note 6 of the notes to the basic financial statements for more detailed information on the PCLC’s capital assets.

Debt Administration

The PCLC entering into two loan agreements with Self Help Ventures Fund for \$4,189,500 during 2017. The loans will be paid back through operating revenues and mature in fiscal year 2024. The first loan is a refinance of the original 2009 loan carries an annual interest rate of 6.53%. The second loan is a loan for the renovation project carries an annual interest rate of 4.03%. See note 14 to the basic financial statements for more detailed information on the PCLC’s debt.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Management Discussion and Analysis
June 30, 2017
Unaudited

For the Future

The PCLC continues to position itself for providing a healthy environment for the students it serves. Over the past several years since moving into the new facility, the PCLC has seen the full time equivalent student increase each year. With the November 2017 counts, fiscal year 2018 has grown to 499 funded students which should allow the PCLC to continue to operate with a positive margin.

Contacting the PCLC

This financial report is designed to provide a general overview of the finances of the Phoenix Community Learning Center and to show the PCLC'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:

Phoenix Community Learning Center
3595 Washington Avenue
Cincinnati, OH 45229
(513) 351-5801

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
STATEMENT OF NET POSITION**

JUNE 30, 2017

Assets:	
Current assets:	
Cash	\$ 1,005,114
Restricted Cash	220,608
Intergovernmental receivable	84,296
Total current assets	<u>1,310,018</u>
Noncurrent assets:	
Non depreciable capital assets	1,472,823
Depreciable capital assets, net	2,999,155
Total noncurrent assets	<u>4,471,978</u>
Total Assets	<u>5,781,996</u>
Deferred Outflows of Resources:	
Pension	<u>960,135</u>
Total Deferred Outflows of Resources:	<u>960,135</u>
Liabilities:	
Current liabilities	
Accounts payable	53,060
Accrued wages and benefits	249,349
Intergovernmental payable	49,357
Amount due within one year:	
Loan payable	130,867
Total current liabilities	<u>482,633</u>
Long term liabilities	
Net Pension Liability	4,234,090
Loan payable	4,058,633
Total long term liabilities	<u>8,292,723</u>
Total Liabilities	<u>8,775,356</u>
Deferred Inflows of Resources:	
Pension	<u>93,093</u>
Total Deferred Inflows of Resources:	<u>93,093</u>
Net Position:	
Net investment in capital assets	282,478
Restricted	220,608
Unrestricted	<u>(2,629,404)</u>
Total Net Position	<u>\$ (2,126,318)</u>

The notes to the basic financial statements are an integral part of this statement.

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2017**

Operating Revenues:	
State foundation	\$ 3,539,874
Tuition and Fees	540
Other operating revenues	711
Total operating revenues	3,541,125
Operating Expenses:	
Salaries and wages	1,676,686
Fringe benefits	636,052
Purchased Services:	
Professional and technical services	456,894
Property services	196,737
Communications	48,200
Utilities	58,383
Food services	380,468
Other	8,189
Materials and supplies	129,845
Depreciation	88,437
Other expenses	38,843
Total operating expenses	3,718,734
Operating Loss	(177,609)
Nonoperating revenues (expenses):	
Interest and fiscal charges	(242,433)
Federal grants	717,778
State grants	4,838
Total nonoperating revenues (expenses)	480,183
Change in net position	302,574
Net position, beginning of year	(2,428,892)
Net position, end of year	\$ (2,126,318)

The notes to the basic financial statements are an integral part of this statement.

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Statement of Cash Flows**

Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	\$ 3,618,801
Cash received from other operating revenues	1,251
Cash payments for personal services	(2,126,870)
Cash payments for contract services	(1,136,570)
Cash payments for supplies and materials	(131,899)
Cash payments for other expenses	(38,843)
Net cash provided by operating activities	<u>185,870</u>
 Cash flows from noncapital financing activities:	
Cash received from state and federal grants	<u>707,651</u>
Net cash provided by noncapital financing activities	<u>707,651</u>
 Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,190,949)
Face value of loan proceeds	4,189,500
Principal paid on loan payable	(3,134,594)
Interest paid on loan payable	(242,433)
Net cash used for capital and related financing activities	<u>(378,476)</u>
 Net change in cash and cash equivalents	 515,045
Cash and cash equivalents at beginning of year	<u>710,677</u>
Cash and cash equivalents at end of year	<u><u>1,225,722</u></u>
 Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	(177,609)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	88,437
Change in assets and liabilities:	
Intergovernmental receivable	62,359
Net Pension Liability	119,344
Accounts payable	13,295
Accrued wages and benefits	71,254
Intergovernmental payable	8,790
Net cash provided by operating activities	<u>\$ 185,870</u>

The notes to the basic financial statements are an integral part of this statement.

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO**

Notes to the Basic Financial Statements

June 30, 2017

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Phoenix Community Learning Center, Hamilton County, Ohio (PCLC) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific, and related teaching service. The PCLC has been determined by the Internal Revenue Service to be a tax-exempt organization under Internal Revenue Code Section 501(c)(3). The PCLC, which is part of the State's education program, is independent of any school district. The PCLC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the PCLC.

The PCLC was approved for operation under a Community School Contract (Contract) with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 2001. Effective July 1, 2005, the Fordham Foundation took over sponsorship of the PCLC under a five year agreement. The agreement was originally amended for a one year period until June 30, 2011. Currently, the Fordham Foundation and the PCLC are operating under a contract for the period of July 1, 2016 to June 30, 2020. The PCLC began operations on July 1, 2001. The Sponsor is responsible for evaluating the PCLC's performance and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The PCLC operates under a self-appointing, multi-member Board of Directors (the Board) consisting of five (5) members. Exhibit III of the PCLC's Community School Contract, specifies that vacancies arising on the Board may be filled by the appointment of successors by a majority of the then existing directors. The Board is responsible for carrying out the provisions of the Contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The PCLC has one instructional/support facility staffed by 37 personnel, which provides services to approximately 469 students. Mr. Luther Brown and Dr. Glenda Brown are the founders of the PCLC. Mr. Luther Brown, Board Chairman, is the husband of Dr. Glenda Brown, Superintendent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO**

Notes to the Basic Financial Statements

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION

The PCLC uses enterprise accounting to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost (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.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The difference between total assets and deferred outflows and liabilities and deferred inflows is defined as net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total 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, Chapter 5705, unless specifically provided in a school's contract with its sponsor. The Contract between the PCLC and the Sponsor prescribes a budgetary process for the PCLC requiring the Superintendent, Business Manager/Treasurer, and the Board to review the financial statements on a monthly basis. In addition, the PCLC is required to prepare an updated forecast on a monthly or quarterly basis.

D. CASH AND RESTRICTED CASH

All unrestricted monies received by the PCLC are maintained in a demand deposit account. For internal accounting purposes, the cash is segregated into various funds. The PCLC has also a debt service reserve and construction loan proceeds held by Self-Help Ventures LLC which are reported as restricted cash on the statement of net position.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Notes to the Basic Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. CAPITAL ASSETS AND DEPRECIATION

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The PCLC maintains a capitalization threshold of \$500. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the capital assets. Buildings are depreciated using the straight-line method over an estimated useful life of forty years. Land and construction in progress are not depreciated. Improvements to the building are depreciated over the remaining life of the building. The PCLC does not possess any infrastructure.

F. INTERGOVERNMENTAL REVENUES

The PCLC currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues in which it is earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include 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 PCLC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the PCLC on a reimbursement basis.

The PCLC participates in other various federal programs through the Ohio Department of Education. These include the National School Lunch Program, Breakfast, Title I, Title II-A, and IDEA Part B.

G. 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.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Notes to the Basic Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. NET POSITION

Net position represents the difference between assets and deferred outflows against liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation. 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 PCLC applies restricted resources when an expense is incurred for purposes of which both restricted and unrestricted net position are available. The PCLC reports restricted net position of \$125,000 debt service reserve related to the Self-Help Ventures loan payable and \$95,608 for construction loan proceeds.

I. LONG TERM OBLIGATIONS

All payables and long-term obligations are reported on the statement of net position for PCLC.

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 and will not be recognized as an outflow of resources (expense) until then. For the PCLC, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the statements of financial position 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 PCLC, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 8)

K. 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 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.

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3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2017, the PCLC 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 PCLC.

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 PCLC.

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 PCLC.

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 PCLC.

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4. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the PCLC's deposits may not be returned to it. The PCLC's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pooled collateral. At June 30, 2017, the PCLC had a carrying value of \$1,225,114. The bank balance was \$1,287,202 with \$510,831 of the balance being covered through the Federal Depository Insurance Corporation (FDIC) and \$776,371 classified as uninsured for FDIC purposes but covered with pooled collateral through the bank.

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2017, consisted of intergovernmental grants. All intergovernmental receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds. The principle items of intergovernmental receivables as of June 30, 2017 are as follows:

<u>Intergovernmental Receivable</u>	<u>Amount</u>
SERS Refund	\$14,706
Title VI-B Grant	13,143
Title I Grant	<u>56,447</u>
Total	<u><u>\$84,296</u></u>

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6. CAPITAL ASSETS

A summary of the capital assets as of June 30, 2017 is as follows:

	Balance 7/1/16	Additions	Disposals	Balance 6/30/17
Non-depreciable assets:				
Land	\$287,700	\$0	\$0	\$287,700
Construction in progress	0	1,185,123	0	1,185,123
Non-depreciable assets:	287,700	1,185,123	0	1,472,823
Depreciable assets:				
Buildings	3,711,802	0	0	3,711,802
Equipment and furniture	571,815	5,826	0	577,641
Total depreciable assets	4,283,617	5,826	0	4,289,443
Less accumulated depreciation:				
Buildings	(649,621)	(80,646)	0	(730,267)
Equipment and furniture	(552,230)	(7,791)	0	(560,021)
Total accumulated depreciation	(1,201,851)	(88,437)	0	(1,290,288)
Capital assets, net	\$3,369,466	\$1,105,512	\$0	\$4,471,978

7. RISK MANAGEMENT

A. Property Liability

The PCLC is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2017, the PCLC contracted with Great American Insurance Group for personal business property and general liability insurance. The policy's building insurance limit is \$5,304,000 with a \$3,000,000 general aggregate each occurrence limit is \$1,000,000 with \$1,000,000 for personal business and a \$0 deductible. The PCLC has non-profit directors and officer's liability insurance (D&O) and employment practices liability (EP) through United States Liability Insurance Company with a \$1,000,000 (both) and \$2,500 deductible for D&O and \$5,000 deductible for EP. The PCLC also has an employee dishonesty bond of \$50,000 through Caldwell Insurance. Liberty Mutual Insurance provides a Treasurer surety bond of \$25,000. There has been no reduction in coverage from the prior year and settled claims have not exceeded PCLC's coverage in any of the past three years.

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7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The PCLC pays the State Workers' Compensation System a premium for each employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor calculated by the State.

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

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8. DEFINED BENEFIT PENSION PLANS (Continued)

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 the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Age 65 with 5 years of service credit; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit 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 or \$86 multiplied by the years of service. 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.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the PCLC 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. Nothing was allocated to the Health Care Fund for fiscal year 2017.

The PCLC's contractually required contribution to SERS was \$59,796 for fiscal year 2017. Of this amount \$7,984 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65 or 35 years of service and at least age 60.

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.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 schedules of employer allocations and pension amounts by employer.

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 PCLC 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 PCLC's contractually required contribution to STRS was \$179,814 for fiscal year 2017. Of this amount \$36,000 is reported as an intergovernmental payable.

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8. 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 PCLC's proportion of the net pension liability was based on the PCLC'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>
Proportion of the Net Pension Liability - prior measurement date	0.007864%	0.01023445%	
Proportion of the Net Pension Liability - current measurement date	<u>0.008092%</u>	<u>0.01088010%</u>	
Change in proportionate share	<u>0.000227%</u>	<u>0.000646%</u>	
Proportionate Share of the Net Pension Liability	\$592,223	\$3,641,867	\$4,234,090
Pension Expense	\$112,696	\$274,360	\$387,056

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$8,181	\$147,905	\$156,086
Differences between actual/proportionate share	10,080	0	10,080
Net difference between projected and actual earnings on pension plan investments	51,787	287,858	339,645
Changes in proportion share	27,711	147,469	175,180
Changes in assumptions	39,534	0	39,534
PCLC contributions subsequent to the measurement date	<u>59,796</u>	<u>179,814</u>	<u>239,610</u>
Total Deferred Outflows of Resources	<u>\$197,089</u>	<u>\$763,046</u>	<u>\$960,135</u>
Deferred Inflows of Resources			
Differences between actual/proportionate share	\$0	\$4,525	\$4,525
Changes in proportion share	<u>0</u>	<u>88,568</u>	<u>88,568</u>
Total Deferred Inflows of Resources	<u>\$0</u>	<u>\$93,093</u>	<u>\$93,093</u>

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8. DEFINED BENEFIT PENSION PLANS (Continued)

\$239,610 reported as deferred outflows of resources related to pension resulting from PCLC 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:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	\$42,338	\$69,375	\$111,713
2019	42,133	69,374	111,507
2020	38,781	194,547	233,328
2021	14,041	156,843	170,884
Total	\$137,293	\$490,139	\$627,432

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.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

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 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 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)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent 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:

<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	<u>10.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

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8. DEFINED BENEFIT PENSION PLANS (Continued)

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 PCLC'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%)
PCLC's proportionate share of the net pension liability	\$784,067	\$592,223	\$431,642

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.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Asset Class	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
	100.00 %	7.61 %

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

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.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the PCLC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the PCLC'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 PCLC'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%)
PCLC's proportionate share of the net pension liability	\$4,839,746	\$3,641,867	\$2,631,386

Change between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which impacted 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 the cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the impact to the School's net pension liability is expected to be significant.

9. POSTEMPLOYMENT 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.

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9. POSTEMPLOYMENT BENEFITS (continued)

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. 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 2.0% 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 \$23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The PCLC's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015, were \$0, \$0, and \$6,172, respectively. The full amount has been contributed for fiscal years 2017, 2016, and 2015.

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

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

State Teachers Retirement System

Plan Description – The PCLC 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.

PHOENIX COMMUNITY LEARNING CENTER

HAMILTON COUNTY, OHIO

Notes to the Basic Financial Statements

June 30, 2017

9. POSTEMPLOYMENT BENEFITS (continued)

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care 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 allocated 0 percent of the employer contributions to post-employment health care. The PCLC's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$0 respectively. The full amount has been contributed for fiscal years 2017, 2016, and 2015.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

All employees receive 5 sick days and 2 personal days per school year. Employees are not permitted to carry over balances at year end; therefore, there is no liability for accrued compensated absences.

B. Employee Medical and Dental Benefits

The PCLC has purchased insurance from Anthem Blue Cross/Blue Shield to provide employee medical/surgical. The PCLC pays 80% for the employee's rate and 75% of any dependents, including spouses. Dental Care Plus provides dental coverage to all employees with PCLC paying 80% of the premium. The PCLC makes vision insurance coverage to employees through Avesis Third Administrators, Inc. which are 100% the employee's responsibility.

11. CONTINGENCIES

A. Grants

The PCLC 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 of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the PCLC at June 30, 2017.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Notes to the Basic Financial Statements
June 30, 2017

11. CONTINGENCIES (continued)

B. State 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 PCLC 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 PCLC. As of the June final No.1, report the PCLC has reported a payable of \$17,995.

12. BOARD MEMBERS

Board members receive a \$125 stipend per meeting effective May 2010 and still the effective rate.

13. RELATED PARTY TRANSACTIONS

Dr. Glenda Brown, Superintendent, and Mr. Luther Brown, Board President, who are co-founders of PCLC, are married.

The PCLC employed Sherrylon Miree, Dr. Glenda Brown's niece, during 2017 and was paid \$41,218 in salary.

**PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO**

Notes to the Basic Financial Statements

June 30, 2017

14. LONG TERM LIABILITIES

The changes in the PCLC's long-term obligations (non-current liabilities) during the year consist of the following:

	Obligation Outstanding 7/01/16	Additions	Reductions	Obligation Outstanding 6/30/17	Amounts Due in One Year
Self Help Venture					
Loan Payable					
6.51% 3/29/2016 (A)	\$3,134,594	\$0	\$3,134,594	\$0	\$0
6.53% 11/1/2023 (B)	0	3,129,146	0	3,129,146	92,864
4.03% 11/1/2023 (C)	0	1,060,354	0	1,060,354	38,003
Net Pension Liability:					
STRS	2,828,503	813,364		3,641,867	0
SERS	448,733	143,490		592,223	0
Total Long Term Liabilities	<u>\$6,411,830</u>	<u>\$5,146,354</u>	<u>\$3,134,594</u>	<u>\$8,423,590</u>	<u>\$130,867</u>

(A) The PCLC entered into a loan agreement during fiscal year 2009 with Self Help Ventures Fund to acquire land and a building for their new facility. The loan was also used to complete renovation of the building for use by the PCLC in fiscal year 2010. The loan will be retired from operating dollars and amortized over a twenty-five year schedule. The loan was originally due in March 2016 with a balloon payment on the final due date, but was extended under the same payment terms until August 1, 2016. In August 2016, the loan was paid off as part of the refinance.

(B) The PCLC entered into a loan agreement during fiscal year 2017 with Self Help Ventures Fund to refinance the 2009 loan. The loan will be retired from operating dollars and amortized over a fourteen year schedule. The loan is due in March 2016 with a balloon payment on the final due date of November 1, 2023 with a 6.53% interest rate.

(C) The PCLC entered into a loan agreement during fiscal year 2017 with Self Help Ventures Fund to complete basement and other facility renovation. The loan will be retired from operating dollars and amortized over a fourteen year schedule. The loan is due in March 2016 with a balloon payment on the final due date of November 1, 2023 with a 4.03% interest rate.

The PCLC pays net pension obligations related to employee compensation from the fund benefiting from their service.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY, OHIO
Notes to the Basic Financial Statements
June 30, 2017

14. LONG TERM LIABILITIES (continued)

Principal and interest requirements to retire long term loans outstanding at June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Loan Payable (B)		
	Principal	Interest	Total
2018	\$92,864	\$205,403	\$298,266
2019	146,894	196,636	343,530
2020	156,406	187,124	343,530
2021	167,595	175,935	343,530
2022	179,034	164,496	343,530
2023-2031	2,386,354	819,929	3,206,282
Total	<u>\$3,129,146</u>	<u>\$1,749,524</u>	<u>\$4,878,670</u>

Fiscal Year Ending June 30,	Loan Payable (C)		
	Principal	Interest	Total
2018	\$38,003	\$42,877	\$80,880
2019	58,917	40,681	99,598
2020	61,266	38,332	99,598
2021	63,921	35,677	99,598
2022	66,582	33,016	99,598
2023-2031	771,666	157,915	929,581
Total	<u>\$1,060,354</u>	<u>\$348,499</u>	<u>\$1,408,853</u>

15. SUBSEQUENT EVENTS

In preparing its financial statements, the PCLC has evaluated events subsequent to the statement of financial position date through December 13, 2017, which is the date the financial statements were available to be issued. There was no subsequent event identified.

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366 Ludlow Ave| Cincinnati, Ohio 45220

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

To the Board of Directors
Phoenix Community Learning Center
Hamilton County
3595 Washington Avenue
Cincinnati, Ohio 45229

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States, the financial statements of the Phoenix Community Learning Center, 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 December 13, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all 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, material weaknesses may exist that have not been identified.

Phoenix Community Learning Center
Hamilton County
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on 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

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

Richardson & Associates, LLC

Richardson & Associates, LLC
Cincinnati, Ohio
December 13, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

Phoenix Community Learning Center (PCLC)
 Required Supplementary Information
 Schedule of the PCLC's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1)

	2016	2015	2014	2013
The PCLC's Proportionate of the Net Pension Liability	0.008092%	0.007864%	0.007169%	0.007169%
The PCLC's Proportionate Share of the Net Pension Liability	\$ 592,223	\$ 448,733	\$ 362,819	\$ 426,317
The PCLC's Covered-Employee Payroll	\$ 372,171	\$ 368,589	\$ 329,185	\$ 203,468
The PCLC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	159.13%	121.74%	110.22%	209.53%
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

Amount presented as of the PCLC's measurement date, which is the prior fiscal year.

Phoenix Community Learning Center (PCLC)
 Required Supplementary Information
 Schedule of the PCLC's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1)

	2016	2015	2014	2013
The PCLC's Proportionate of the Net Pension Liability	0.01088001%	0.0102345%	0.010841%	0.010841%
The PCLC's Proportionate Share of the Net Pension Liability	\$ 3,641,867	\$ 2,828,503	\$ 2,636,984	\$ 3,141,158
The PCLC's Covered-Employee Payroll	\$ 1,148,871	\$ 1,119,136	\$ 978,679	\$ 1,093,850
The PCLC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	317.00%	252.74%	269.44%	287.17%
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

Amount presented as of the PCLC's measurement date, which is the prior fiscal year.

Phoenix Community Learning Center (PCLC)
Required Supplementary Information
Schedule of PCLC's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contributions	\$ 59,796	\$ 52,104	\$ 48,580	\$ 45,625	\$ 28,160	\$ 32,861	\$ 28,124	\$ 55,974	\$ 26,501	\$ 41,520
Contributions in Relation to the Contractually Required Contribution	<u>(59,796)</u>	<u>(52,104)</u>	<u>(48,580)</u>	<u>(45,625)</u>	<u>(28,160)</u>	<u>(32,861)</u>	<u>(28,124)</u>	<u>(55,974)</u>	<u>(26,501)</u>	<u>(41,520)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The PCLC Covered-Employee Payroll	\$ 427,114	\$ 372,171	\$ 368,589	\$ 329,185	\$ 203,468	\$ 244,320	\$ 223,739	\$ 413,397	\$ 269,319	\$ 422,811
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

Phoenix Community Learning Center (PCLC)
 Required Supplementary Information
 Schedule of PCLC's Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contributions	\$ 179,814	\$ 160,842	\$ 156,679	\$ 137,015	\$ 153,139	\$ 183,351	\$ 167,651	\$ 159,376	\$ 161,405	\$ 149,866
Contributions in Relation to the Contractually Required Contribution	<u>(179,814)</u>	<u>(160,842)</u>	<u>(156,679)</u>	<u>(137,015)</u>	<u>(153,139)</u>	<u>(183,351)</u>	<u>(167,651)</u>	<u>(159,376)</u>	<u>(161,405)</u>	<u>(149,866)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The PCLC Covered-Employee Payroll	\$ 1,284,386	\$ 1,148,871	\$ 1,119,136	\$ 978,679	\$ 1,093,850	\$ 1,309,650	\$ 1,197,507	\$ 1,138,400	\$ 1,152,893	\$ 1,070,471
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%



Dave Yost • Auditor of State

PHOENIX COMMUNITY LEARNING CENTER

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
MARCH 8, 2018