

**KLEPINGER COMMUNITY  
SCHOOL  
MONTGOMERY COUNTY, OHIO**

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2018**

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



# OHIO AUDITOR OF STATE KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of Klepinger Community School, Montgomery County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2017 through June 30, 2018. 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. Klepinger Community School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

March 20, 2019

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**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

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*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

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

The Honorable Keith Faber  
Auditor of State  
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Klepinger Community School, Montgomery County, Ohio, (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Klepinger Community School as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 3 to the basic financial statements, during 2018, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Also, as discussed in Note 3 to the financial statements, the School restated net position at June 30, 2017, due to the merger of schools. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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



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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



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

January 29, 2019

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**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED

The discussion and analysis of the Klepinger Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

**Financial Highlights**

Key financial highlights for 2018 are as follows:

- Effective January 1, 2018, Klepinger Community School merged with Imagine Woodbury Academy (see Note 18 of the basic financial statements for detail).
- Net position was restated at the beginning of year as described in Note 3 of the notes to the basic financial statements.
- In total, net position was deficit \$4,398,326 at June 30, 2018.
- The School had operating revenues of \$5,191,412, operating expenses of \$4,521,655 and non-operating revenues of \$1,255,428 for fiscal year 2018.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

**Reporting the School's Financial Activities**

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2018?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 11 and 12 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 13 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 - 44 of this report.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's net pension liability and net OPEB liability, which can be found on pages 45 - 58 of this report.

The table below provides a summary of the School's net position for fiscal year 2018 and 2017. Net position (deficit) at June 30, 2017, has been restated as described in Note 3 of the notes to the basic financial statements.

	<b>Net Position</b>	
	<u>2018</u>	<u>(Restated) 2017</u>
<b><u>Assets</u></b>		
Current assets	\$ 233,865	\$ 304,981
<b><u>Deferred outflows of resources</u></b>	<u>1,870,046</u>	<u>1,264,253</u>
<b><u>Liabilities</u></b>		
Current liabilities	232,756	310,518
Non-current liabilities	<u>5,642,971</u>	<u>8,034,367</u>
Total liabilities	<u>5,875,727</u>	<u>8,344,885</u>
<b><u>Deferred inflows of resources</u></b>	<u>626,510</u>	<u>499,228</u>
<b><u>Net Position</u></b>		
Unrestricted (deficit)	<u>(4,398,326)</u>	<u>(7,274,879)</u>
Total net position (deficit)	<u>\$ (4,398,326)</u>	<u>\$ (7,274,879)</u>

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." For fiscal year 2018, the School adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation and the merger with Imagine Woodbury Academy had the effect of restating net position (deficit) at June 30, 2017, from (\$3,801,285) to (\$7,274,879).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018 and 2017 (restated), the School's net position totaled deficits of (\$4,398,326) and (\$7,274,879), respectively.

Current assets represent cash, accounts and intergovernmental receivables. Current liabilities represent accounts and intergovernmental payables for professional services. Refer to Notes 2.K, Note 5 and Notes 9.A and 9.B. for detail on the current receivables and payables.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED

Long-term liabilities outstanding at June 30, 2018 represent the net pension liability (see Note 6 for detail) and the net OPEB liability (see Note 7 for detail). Refer to Note 10 for a summary of the changes in the School's long-term obligations during fiscal year 2018. Long-term liabilities decreased as a result of the reduction in net pension liability and net OPEB liability and the debt forgiveness by Imagine Schools, Inc. of the Imagine Woodbury Academy advances payable to operating company liability outstanding at June 30, 2018.

The table below shows the changes in net position for fiscal years 2018 and 2017.

	<b>Change in Net Position</b>	
	<u>2018</u>	<u>(Restated) 2017</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 5,191,412	\$ 4,282,632
Total operating revenue	<u>5,191,412</u>	<u>4,282,632</u>
<b><u>Operating Expenses:</u></b>		
Sponsorship payments	148,205	134,739
Management fees	3,344,113	5,009,946
Legal	26,131	20,261
Professional services	24,904	32,901
Lease payments	963,899	938,111
Materials and supplies	29	-
Other	14,374	18,149
Total operating expenses	<u>4,521,655</u>	<u>6,154,107</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and state grants	1,255,328	1,353,132
Other non-operating revenue	100	-
Total non-operating revenues	<u>1,255,428</u>	<u>1,353,132</u>
<b><u>Special Item:</u></b>		
Debt forgiveness	<u>951,368</u>	<u>-</u>
Change in net position	2,876,553	(518,343)
Net position (deficit) at beginning of year (restated)	<u>(7,274,879)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (4,398,326)</u>	<u>\$ (7,274,879)</u>

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 expenses still include OPEB expense of \$7,830 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$135,841. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 expenses under GASB 75	\$ 4,521,655
Negative OPEB expense under GASB 75	135,841
2018 contractually required contributions	<u>14,287</u>
Adjusted 2018 program expenses	4,671,783
Total 2017 program expenses under GASB 45	<u>6,154,107</u>
Decrease in expenses not related to OPEB	<u>\$ (1,482,324)</u>

Overall, expenses decreased \$1,632,452 or 26.537%. The change in expenses is primarily the result of increasing expenses from the School's merger with Imagine Woodbury Academy offset by decreasing expenses related to the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. The School reported (\$1,450,732) in pension expense and (\$135,841) in OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years.

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from Federal entitlement programs. The School received more in State foundation revenue due to an increase in student enrollment from 422 students in fiscal year 2017 to 525 students in fiscal year 2018. The increase in student enrollment is a result of the School's merger with Imagine Woodbury Academy. The School received Federal grant monies through the Child Nutrition Breakfast & Lunch, Title I-A, Title I, Title II-A and Title VI-B programs during fiscal year 2018.

***Debt***

The School had no debt obligations outstanding at June 30, 2018, or June 30, 2017.

***Capital Assets***

The School had no capital assets over the threshold to report at June 30, 2018, or June 30, 2017.

**Restrictions and Other Limitations**

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

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED**

**Current Financial Related Activities**

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

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

**Contacting the School's Financial Management**

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



BASIC  
FINANCIAL STATEMENTS

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2018

<b>Assets:</b>	
Current assets:	
Cash . . . . .	\$ 1,574
Receivables:	
Accounts . . . . .	26,404
Intergovernmental . . . . .	205,887
	233,865
Total assets . . . . .	
<b>Deferred outflows of resources:</b>	
Pension . . . . .	1,740,303
OPEB . . . . .	129,743
	1,870,046
Total deferred outflows of resources . . . . .	
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	206,352
Intergovernmental payable . . . . .	26,404
	232,756
Long-term liabilities:	
Net pension liability (See Note 6) . . . . .	4,614,488
Net OPEB liability (See Note 7) . . . . .	1,028,483
	5,642,971
Total long-term liabilities . . . . .	
	5,875,727
Total liabilities . . . . .	
<b>Deferred inflows of resources:</b>	
Pension . . . . .	510,667
OPEB . . . . .	115,843
	626,510
Total deferred inflows of resources . . . . .	
<b>Net position:</b>	
Unrestricted (deficit) . . . . .	(4,398,326)
	(4,398,326)
Total net position (deficit) . . . . .	
	\$ (4,398,326)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 5,191,412
Total operating revenues . . . . .	<u>5,191,412</u>
 <b>Operating expenses:</b>	
Sponsorship payments . . . . .	148,205
Management fees . . . . .	3,344,113
Legal . . . . .	26,131
Professional services . . . . .	24,904
Lease payments. . . . .	963,899
Materials and supplies . . . . .	29
Other . . . . .	14,374
Total operating expenses. . . . .	<u>4,521,655</u>
 Operating income . . . . .	 <u>669,757</u>
 <b>Non-operating revenues:</b>	
Federal and State grants. . . . .	1,255,328
Other non-operating revenue. . . . .	100
Total non-operating revenues . . . . .	<u>1,255,428</u>
 Income before special item. . . . .	 <u>1,925,185</u>
 <b>Special item:</b>	
Debt forgiveness . . . . .	<u>951,368</u>
 Change in net position. . . . .	 2,876,553
 <b>Net position (deficit) at beginning of year (restated) . . . . .</b>	
	 <u>(7,274,879)</u>
 <b>Net position (deficit) at end of year . . . . .</b>	 <u>\$ (4,398,326)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Cash flows from operating activities:</b>	
Cash received from State foundation . . . . .	\$ 5,184,989
Cash payments for sponsorship payments . . . . .	(148,025)
Cash payments for management fees. . . . .	(5,355,893)
Cash payments for legal fees . . . . .	(26,689)
Cash payments for professional services . . . . .	(24,904)
Cash payments for lease . . . . .	(963,899)
Cash payments for materials and supplies . . . . .	(29)
Cash payments for other expenses . . . . .	(14,374)
	<hr/>
Net cash used in operating activities . . . . .	(1,348,824)
 <b>Cash flows from noncapital financing activities:</b>	
Cash received from Federal and State grants. . . . .	1,348,727
Cash received from other non-operating revenue . . . . .	100
	<hr/>
Net cash provided by noncapital financing activities. . . . .	1,348,827
	<hr/>
Net increase in cash. . . . .	3
	<hr/>
<b>Cash at beginning of year (restated). . . . .</b>	<b>1,571</b>
<b>Cash at end of year. . . . .</b>	<b>\$ 1,574</b>
	<hr/> <hr/>
 <b>Reconciliation of operating income to net cash used in operating activities:</b>	
Operating income . . . . .	\$ 669,757
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) in accounts receivable. . . . .	(24,534)
Decrease in intergovernmental receivable . . . . .	2,254
(Increase) in deferred outflows - pensions . . . . .	(483,880)
(Increase) in deferred outflows - OPEB . . . . .	(121,913)
(Decrease) in accounts payable . . . . .	(95,489)
Increase in intergovernmental payable . . . . .	17,727
(Decrease) in net pension liability . . . . .	(1,295,970)
(Decrease) in net OPEB liability . . . . .	(144,058)
Increase in deferred inflows - pensions. . . . .	11,439
Increase in deferred inflows - OPEB . . . . .	115,843
	<hr/>
Net cash used in operating activities. . . . .	\$ (1,348,824)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

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

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

Effective January 1, 2018, Klepinger Community School merged with Imagine Woodbury Academy (see Note 18 for detail).

The School operates under the direction of a Governing Board which must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the School. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Board controls the School’s instructional/support facility staffed by employees of the management company who provide services to 525 students.

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

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

**A. Basis of Presentation**

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

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

**B. Measurement Focus**

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

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

**C. Basis of Accounting**

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

**D. Deferred Outflows of Resources and Deferred Inflows of Resources**

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, see Notes 6 and 7 for deferred outflows of resources related to the School's net pension liability and net OPEB liability, respectively.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the School's net pension liability and net OPEB liability, see Notes 6 and 7, respectively, for detail.

**E. Budgetary Process**

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Each year, the School Governing Board, with the assistance of the School's designated fiscal officer, is required to adopt an annual budget by the thirty-first day of October using the format and following the guidelines prescribed by the Ohio Department of Education (ODE).

**F. Cash**

Cash received by the School is reflected as "cash" on the statement of net position. Unless otherwise noted, all monies received by the School are pooled and deposited in a central bank account as demand deposits. The School did not have any investments during fiscal year 2018.

**KLEPINGER COMMUNITY SCHOOL  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

**G. Capital Assets**

All capital assets are capitalized at cost or estimated historical cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The School has established a capitalization threshold of \$5,000. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The School had no capital assets over the threshold to report at June 30, 2018.

**H. Net Position**

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

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**J. Intergovernmental Revenues**

The School currently participates in the State Foundation, Opportunity Grant, Special Education, Targeted Assistance, K-3 Literacy, Limited English Proficiency Funding, Third Grade Reading, Facilities and Economic Disadvantaged Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2018 school year totaled \$5,191,412.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Federal and State grant revenue received during fiscal year 2018 was \$1,255,328.

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

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

All payables and other accrued liabilities are reported on the statement of net position. Accrued liabilities include accounts payable (e.g. amounts due to Imagine Schools Inc. as further described in Note 9.B. and legal fees) and intergovernmental payables (e.g. amounts due to the School Employees Retirement System and the State Teachers Retirement System). Long-term obligations are detailed in Note 10.

**L. Pensions/Other Postemployment Benefits (OPEB)**

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

**M. Estimates**

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

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Upon the merger of Klepinger Community School with Imagine Woodbury Academy on January 1, 2018, Imagine Schools, Inc. executed a waiver agreement forgiving \$951,368 in advances payable to operating company from Imagine Woodbury Academy that were outstanding at June 30, 2017. The advances were made by Imagine Schools, Inc. to cover operating expenses incurred during prior fiscal years. The debt forgiveness has been reported as a special item on the statement of revenues, expenses and changes in net position.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2018, the School has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".



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

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the School's postemployment benefit plan disclosures, as presented in Note 7 to the basic financial statements, and added required supplementary information which is presented on pages 51 - 56 and page 58. See Note 3.B. for the effect of GASB Statement No. 75 on net position at June 30, 2017.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School.

**B. Restatement of Net Position**

During fiscal year 2018, Klepinger Community School merged with Imagine Woodbury Academy, as detailed in Note 18 to the basic financial statements. In accordance with GASB Statement No. 69, the net position (deficit) of Imagine Woodbury Academy at June 30, 2017, is reflected as a restatement to the beginning net position (deficit) of Klepinger Community School as a result of the government merger.

A net position restatement is required as a result of the government merger and to implement GASB Statement No 75. Net position (deficit) at June 30, 2017, has been restated as follows:

Net position (deficit) as previously reported	\$ (3,801,285)
Government merger	(2,308,883)
GASB Statement No. 75:	
Deferred outflows - payments	
subsequent to measurement date	7,830
Net OPEB liability	<u>(1,172,541)</u>
Restated net position (deficit) at June 30, 2017	<u>\$ (7,274,879)</u>

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

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

In addition to the above, cash as reported on the statement of cash flows has been restated from \$1,485 to \$1,571 as a result of the merger with Imagine Woodbury Academy.

**NOTE 4 - DEPOSITS**

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2018, the carrying amount of the School's deposits and the bank balance was \$1,574. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2018, consisted of intergovernmental receivables (e.g. grants and entitlements and amounts due from ODE) and accounts receivable from Imagine Schools, Inc. and the School's Sponsor. All receivables are considered collectible in full.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

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

**A. Net Pension Liability**

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

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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* and any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the statement of net position.

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

Plan Description - The 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.

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.

A three-year cost-of-living adjustment (COLA) suspension is in effect for all retirees for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W (the measure of inflation used by Social Security), not greater than 2.5%, with a floor of 0%.

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$91,471 for fiscal year 2018. Of this amount, \$278 is reported as intergovernmental payable.

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

Plan Description - Licensed teachers 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 website at [www.strsoh.org](http://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. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. 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 credit 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2% 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 service. 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$226,208 for fiscal year 2018. Of this amount, \$15,217 is reported as intergovernmental payable.

**D. Pension Liability, Pension Expense, and Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pension**

The net pension liability was measured as of June 30, 2017, 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 projected 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*	0.01341810%	0.01472343%	
Proportion of the net pension liability current measurement date	<u>0.01580370%</u>	<u>0.01545030%</u>	
Change in proportionate share	<u>0.00238560%</u>	<u>0.00072687%</u>	
Proportionate share of the net pension liability	\$ 944,236	\$ 3,670,252	\$ 4,614,488
Pension expense	\$ 51,129	\$ (1,501,861)	\$ (1,450,732)

\*Includes Imagine Woodbury Academy's proportionate share to reflect the government merger.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

At June 30, 2018, 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	\$ 40,638	\$ 141,727	\$ 182,365
Changes of assumptions	48,827	802,725	851,552
Difference between School contributions and proportionate share of contributions/ change in proportionate share	205,137	183,570	388,707
School contributions subsequent to the measurement date	<u>91,471</u>	<u>226,208</u>	<u>317,679</u>
Total deferred outflows of resources	<u>\$ 386,073</u>	<u>\$ 1,354,230</u>	<u>\$ 1,740,303</u>
	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 29,581	\$ 29,581
Net difference between projected and actual earnings on pension plan investments	4,481	121,122	125,603
Difference between School contributions and proportionate share of contributions/ change in proportionate share	<u>11,899</u>	<u>343,584</u>	<u>355,483</u>
Total deferred inflows of resources	<u>\$ 16,380</u>	<u>\$ 494,287</u>	<u>\$ 510,667</u>

\$317,679 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, 2019. 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:			
2019	\$ 122,987	\$ 80,482	\$ 203,469
2020	133,731	245,250	378,981
2021	43,514	201,603	245,117
2022	<u>(22,010)</u>	<u>106,400</u>	<u>84,390</u>
Total	<u>\$ 278,222</u>	<u>\$ 633,735</u>	<u>\$ 911,957</u>

**KLEPINGER COMMUNITY SCHOOL  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**E. Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the 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 disabled members was 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 most recent experience study was completed for the five year period ended June 30, 2015.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	\$ 1,310,354	\$ 944,236	\$ 637,537



**KLEPINGER COMMUNITY SCHOOL  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

**F. Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School's proportionate share of the net pension liability	\$ 5,261,181	\$ 3,670,252	\$ 2,330,132

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 7 - DEFINED BENEFIT OPEB PLANS**

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

**A. Net OPEB Liability**

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

The Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* and any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on the statement of net position.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. 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. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School's surcharge obligation was \$10,899.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$14,287 for fiscal year 2018. Of this amount, \$10,909 is reported as intergovernmental payable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can 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 discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

**D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01351150%	0.01472343%	
Proportion of the net OPEB liability current measurement date	<u>0.01586110%</u>	<u>0.01545030%</u>	
Change in proportionate share	<u>0.00234960%</u>	<u>0.00072687%</u>	
Proportionate share of the net OPEB liability	\$ 425,670	\$ 602,813	\$ 1,028,483
OPEB expense	\$ 42,552	\$ (178,393)	\$ (135,841)

\*Includes Imagine Woodbury Academy's proportionate share to reflect the government merger.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 34,798	\$ 34,798
Difference between School contributions and proportionate share of contributions/change in proportionate share	47,338	33,320	80,658
School contributions subsequent to the measurement date	14,287	-	14,287
Total deferred outflows of resources	\$ 61,625	\$ 68,118	\$ 129,743
	SERS	STRS	Total
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 1,124	\$ 25,766	\$ 26,890
Changes of assumptions	40,394	48,559	88,953
Total deferred inflows of resources	\$ 41,518	\$ 74,325	\$ 115,843

\$14,287 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ 2,236	\$ (3,181)	\$ (945)
2020	2,236	(3,181)	(945)
2021	1,629	(3,181)	(1,552)
2022	(281)	(3,181)	(3,462)
2023	-	3,258	3,258
Thereafter	-	3,259	3,259
Total	\$ 5,820	\$ (6,207)	\$ (387)

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

**E. Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

*Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates* - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's proportionate share of the net OPEB liability	\$ 514,051	\$ 425,670	\$ 355,650
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School's proportionate share of the net OPEB liability	\$ 345,400	\$ 425,670	\$ 531,910

**F. Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

**Discount Rate** - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate** - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's proportionate share of the net OPEB liability	\$ 809,268	\$ 602,813	\$ 439,648
	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB liability	\$ 418,809	\$ 602,813	\$ 844,985

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School maintained the following coverage: general liability, automobile liability, excess/umbrella liability, and property liability through Philadelphia Indemnity Insurance Co.; and workers compensation and employers' liability through Charter Oak Fire Insurance Co.

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	3,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Retention	10,000
Property liability:	
Building limit	5,775,000
Personal property limit	500,000
Deductible	5,000
Business income with extra expense limit	2,000,000
Boiler and machinery limit	50,000,000
Flood limit	5,000,000
Earthquake limit	5,000,000
Workers compensation and employers' liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

Settled claims have not exceeded commercial coverage in the past three years. There was a reduction in crime liability and directors and officers liability coverage from the prior year.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - CONTRACTS**

**A. Sponsor Contract**

The School entered into a sponsorship contract commencing on April 10, 2008 and ending on June 30, 2010 with St. Aloysius (the "Sponsor") for its establishment, with subsequent renewals of the contract. On June 19, 2015, the contract was renewed for automatic one-year terms effective July 1, 2015 through June 30, 2020.

The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the laws applicable to the School and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis;
- Provide reasonable technical assistance to the School in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the School);
- Take steps to intervene in the School's operation to correct problems in the School's overall performance, declare the School to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year; and
- Abide by the requirements of its contract with ODE, even should those requirements affect the School.

The School paid the Sponsor \$132,480 for purchased services during fiscal year 2018, including \$180 in accounts payable at June 30, 2018. This payable consists of an intergovernmental receivable (amount due from ODE) to be transferred to the Sponsor, in accordance with the sponsorship contract.

Prior to the merger with Klepinger Community School on January 1, 2018, Imagine Woodbury Academy's sponsorship contract was with Warren County Educational Service Center. Upon the merger, the sponsorship contract was terminated. The School paid Warren County Educational Service Center \$15,725 for purchased services during fiscal year 2018.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 9 - CONTRACTS - (Continued)**

**B. Management Contract**

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

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

For the services listed above, the School is required to pay a fee to Imagine Schools, Inc. The fee for fiscal year 2018 was equal to approximately 76 percent of the total per pupil allowance received from the State of Ohio and 100 percent of State and/or Federal grant funds received by the School for the creation and operation of its school. Payments to Imagine Schools, Inc. amounted to \$3,344,113 during fiscal year 2018.

At June 30, 2018, the School reported accounts payable to Imagine Schools, Inc. in the amount of \$204,446. This payable consists of intergovernmental receivables (grants and amounts due from ODE) to be transferred to Imagine Schools, Inc. to cover expenses incurred by Imagine Schools, Inc. on the School's behalf, in accordance with the operating contract.

At June 30, 2018, the School had accounts receivable of \$26,404 from Imagine Schools, Inc. to cover the intergovernmental payables due to SERS and STRS, in accordance with the operating contract.

**C. Service Contract**

The School entered into a service contract for a period of twelve months, commencing on July 1, 2017 and ending on June 30, 2018, with Charter School Specialists, LLC (CSS), to provide fiscal services. The School paid CSS \$18,494 during fiscal year 2018 for these services.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 10 - LONG-TERM OBLIGATIONS**

The long-term obligations at June 30, 2017, were restated to include the liabilities of Imagine Woodbury Academy to reflect the merger and for the net OPEB liability, as described in Note 3. The following changes occurred in the long-term obligations during fiscal year 2018:

	(Restated) Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due in One Year
Net pension liability:					
STRS	\$ 4,928,376	\$ -	\$ (1,258,124)	\$ 3,670,252	\$ -
SERS	982,082	-	(37,846)	944,236	-
Total net pension liability	<u>5,910,458</u>	<u>-</u>	<u>(1,295,970)</u>	<u>4,614,488</u>	<u>-</u>
Net OPEB liability:					
STRS	787,413	-	(184,600)	602,813	-
SERS	385,128	40,542	-	425,670	-
Total net OPEB liability	<u>1,172,541</u>	<u>40,542</u>	<u>(184,600)</u>	<u>1,028,483</u>	<u>-</u>
Advances payable to operating company	<u>951,368</u>	<u>-</u>	<u>(951,368)</u>	<u>-</u>	<u>-</u>
Total long-term obligations	<u>\$ 8,034,367</u>	<u>\$ 40,542</u>	<u>\$ (2,431,938)</u>	<u>\$ 5,642,971</u>	<u>\$ -</u>

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

Net OPEB Liability: See Note 7 for information on the School's net OPEB liability.

Advances Payable to Operating Company: See Note 2.N for information on the School's advances payable to operating company, which were forgiven by Imagine Schools, Inc. during fiscal year 2018.

**NOTE 11 - OPERATING LEASES**

The School entered into a sublease agreement dated November 17, 2008, with Schoolhouse Finance, LLC to lease classroom space for the School. The term of the sublease commenced October 1, 2008, and shall continue through June 30, 2023. Thereafter the sublease shall automatically extend for two additional five-year terms, unless written notice of intent not to extend is delivered by either party at least one-hundred-eighty days prior to the end of the then current lease term. The School shall pay to Schoolhouse Finance, LLC \$696,960 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term. The base rent shall escalate annually on July 1 at a rate equal to the greater of the increase in the overall Consumer Price Index All-Urban Consumers, all items less food and energy, and three percent. On March 12, 2009, an amendment was made to the sublease that lowered the annual base rent payable to \$642,721.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 11 - OPERATING LEASES - (Continued)**

The School entered into an amended and restated lease agreement on July 1, 2017, to amend and restate the original sublease agreement dated November 17, 2008. The amended and restated sublease is effective September 1, 2017 through June 30, 2027. The sublease shall automatically extend for one additional ten-year period. The annual base rent is payable in twelve equal monthly installments per sublease year, and shall increase annually based on the base rent escalation date as per the lease agreement. Annual base rent for the first sublease year is \$838,606. Commencing on July 1, 2018, and on the first day of July of each sublease year thereafter during the sublease term, including renewals (if any), base rent shall increase by 0.98%.

Imagine Woodbury Academy entered into a lease agreement on July 1, 2011, with Schoolhouse Finance, LLC to lease classroom space. The term of the lease commenced September 15, 2011 and was terminated upon the merger with Klepinger Community School on January 1, 2018. Imagine Woodbury Academy paid to Schoolhouse Finance, LLC \$112,800 in annual base rent payable in advance in monthly installments of \$9,400 each on the fifteenth day of each month of the term. The base rent escalated annually each July 1 at a rate equal to the lesser of the overall Consumer Price Index for the immediately preceding calendar year as reported by the Bureau of Labor Statistics and the maximum amount permitted by law. The lease was a net lease and Imagine Woodbury Academy also paid to SHF additional rent for real property tax and assessments, personal property taxes, insurance premiums, and sales tax.

The School entered into a lease agreement effective January 1, 2018, with Schoolhouse Finance, LLC to lease classroom space for the School at the Woodbury campus. The term of the lease commenced January 1, 2018 and shall continue through June 30, 2027. The School shall pay to Schoolhouse Finance, LLC \$10,555 in monthly base rent payable in advance in monthly installments due on the fifteenth day of each month of the term. The base rent shall increase each lease year by the percentage increase in Consumer Price Index All-Urban Consumers, U.S. City Average-All Items, as published by the Bureau of Labor and Statistics for the twelve month period ending on June 30 prior to the end of the immediately preceding lease year; provided that in no even shall the increase for each lease year be less than 0.5% or greater than 4% per year. The lease was a net lease and the School also paid to SHF additional rent for real property tax and assessments, personal property taxes, insurance premiums, and sales tax.

The School made \$963,899 in total payments to Schoolhouse Finance, LLC during fiscal year 2018.



**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 12 - MANAGEMENT COMPANY EXPENSES**

For the fiscal year ended June 30, 2018, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

<u>Direct Expenses:</u>	
Salaries and wages	
Instruction	\$ 1,528,539
Support services	168,647
Administrative services	244,835
Fiscal/business services	74,797
Operations and maintenance	15,201
Employees' benefits	
Instruction	646,500
Support services	26,985
Administrative services	64,345
Fiscal/business services	1,501
Operations and maintenance	343
Purchased services	
Instruction	418,730
Support services	(6,825)
Administrative services	304,823
Fiscal/business services	20,496
Operations and maintenance	357,471
Pupil transportation	514,609
Support/food services	404,731
Non-instructional	1,500
Supplies and materials	
Instruction	20,828
Support services	3,127
Administrative services	18,017
Operations and maintenance	2,902
Capital outlay	
Instruction	15,020
Other direct costs	
Instruction	354,883
Administrative services	413,006
Fiscal/business services	8,408
Total expenses	<u>\$ 5,623,419</u>

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

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 13 - CONTINGENCIES**

**A. Grants**

The School received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2018.

**B. State Foundation Funding**

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2018.

As a result of the fiscal year 2018 reviews to-date, the School is due \$6,006 from ODE. This amount has been recorded as an intergovernmental receivable at June 30, 2018.

In addition, the School's contracts with the Sponsor and Imagine Schools, Inc. require payment based on revenues received from the State. As a result of the fiscal year 2018 reviews, the School has recorded accounts payable in the amount of \$4,565 and \$180 to Imagine Schools, Inc. and the Sponsor, respectively, at June 30, 2018.

**C. Litigation**

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

**NOTE 14 - FEDERAL TAX STATUS**

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

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 15 - JOINTLY GOVERNED ORGANIZATION**

**Miami Valley Educational Computer Association**

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

**NOTE 16 - MANAGEMENT PLAN**

The School had an increase of \$2,876,553 in net position and deficit net position of \$4,398,326 at June 30, 2018. The deficit net position is primarily due to the net pension liability of \$4,614,488, net OPEB liability of \$1,028,483, deferred outflows of resources and deferred inflows of resources related to the net pension liability and net OPEB liability of \$1,870,046 and \$626,510, respectively, at June 30, 2018. The net pension liability, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are required to be reported in accordance with GASB Statements No. 68 and 71, as described in Note 6 and GASB Statement No. 75, as described in Note 7. Management intends to continue to increase School enrollment and improve operating efficiencies.

**NOTE 17 - RELATED PARTY TRANSACTIONS**

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

**NOTE 18 - GOVERNMENT MERGER**

Effective January 1, 2018, Klepinger Community School merged with Imagine Woodbury Academy. Upon the government merger, Imagine Woodbury Academy's charter contract with its Sponsor, Warren County Educational Service Center terminated. On January 1, 2018, the financial reporting entity of the combined entity is Klepinger Community School.

Imagine Woodbury Academy transferred its net position to Klepinger Community school, and the effect of the government merger is reflected as a restatement to the beginning net position of Klepinger Community School at July 1, 2017.

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REQUIRED SUPPLEMENTARY INFORMATION

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>(Restated) *</u> <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.01580370%	0.01341810%	0.00814260%	0.00868300%	0.00868300%
School's proportionate share of the net pension liability	\$ 944,236	\$ 982,082	\$ 464,625	\$ 439,442	\$ 516,350
School's covered payroll	\$ 519,707	\$ 416,714	\$ 245,137	\$ 252,323	\$ 184,805
School's proportionate share of the net pension liability as a percentage of its covered payroll	181.69%	235.67%	189.54%	174.16%	279.40%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

\* Amounts were restated to reflect the merger between Klepinger Community School and Imagine Woodbury Academy.

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>(Restated) *</u> <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.01545030%	0.01472343%	0.01126371%	0.01229007%	0.01229007%
School's proportionate share of the net pension liability	\$ 3,670,252	\$ 4,928,376	\$ 3,112,960	\$ 2,989,370	\$ 3,560,918
School's covered payroll	\$ 1,698,571	\$ 1,549,186	\$ 1,162,464	\$ 1,255,708	\$ 1,221,469
School's proportionate share of the net pension liability as a percentage of its covered payroll	216.08%	318.13%	267.79%	238.06%	291.53%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

\* Amounts were restated to reflect the merger between Klepinger Community School and Imagine Woodbury Academy.

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>(Restated) *</u> <u>2017</u>	<u>(Restated) *</u> <u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 91,471	\$ 72,759	\$ 58,340	\$ 32,309
Contributions in relation to the contractually required contribution	<u>(91,471)</u>	<u>(72,759)</u>	<u>(58,340)</u>	<u>(32,309)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 653,364	\$ 519,707	\$ 416,714	\$ 245,137
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.18%

\* Amounts were restated to reflect the merger between Klepinger Community School and Imagine Woodbury Academy.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 34,972	\$ 25,577	\$ 17,674	\$ 15,892	\$ 33,401	\$ 5,623
<u>(34,972)</u>	<u>(25,577)</u>	<u>(17,674)</u>	<u>(15,892)</u>	<u>(33,401)</u>	<u>(5,623)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 252,323	\$ 184,805	\$ 131,405	\$ 126,428	\$ 246,684	\$ 57,144
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>(Restated) *</u> <u>2017</u>	<u>(Restated) *</u> <u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 226,208	\$ 237,800	\$ 216,886	\$ 162,745
Contributions in relation to the contractually required contribution	<u>(226,208)</u>	<u>(237,800)</u>	<u>(216,886)</u>	<u>(162,745)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 1,615,771	\$ 1,698,571	\$ 1,549,186	\$ 1,162,464
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

\* Amounts were restated to reflect the merger between Klepinger Community School and Imagine Woodbury Academy.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 163,242	\$ 158,791	\$ 131,631	\$ 131,112	\$ 57,297	\$ 35,635
<u>(163,242)</u>	<u>(158,791)</u>	<u>(131,631)</u>	<u>(131,112)</u>	<u>(57,297)</u>	<u>(35,635)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,255,708	\$ 1,221,469	\$ 1,012,546	\$ 1,008,554	\$ 440,746	\$ 274,115
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
School's proportion of the net OPEB liability	0.01586110%	0.01351150%
School's proportionate share of the net OPEB liability	\$ 425,670	\$ 385,128
School's covered payroll	\$ 519,707	\$ 416,714
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.91%	92.42%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
School's proportion of the net OPEB liability	0.01545030%	0.01472343%
School's proportionate share of the net OPEB liability	\$ 602,813	\$ 787,413
School's covered payroll	\$ 1,698,571	\$ 1,549,186
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.49%	50.83%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 14,287	\$ 7,830	\$ 6,437	\$ 6,491
Contributions in relation to the contractually required contribution	<u>(14,287)</u>	<u>(7,830)</u>	<u>(6,437)</u>	<u>(6,491)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 653,364	\$ 519,707	\$ 416,714	\$ 245,137
Contributions as a percentage of covered payroll	2.19%	1.51%	1.54%	2.65%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 279	\$ 296	\$ 723	\$ 1,808	\$ 1,135	\$ 2,377
<u>(279)</u>	<u>(296)</u>	<u>(723)</u>	<u>(1,808)</u>	<u>(1,135)</u>	<u>(2,377)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 252,323	\$ 184,805	\$ 131,405	\$ 126,428	\$ 246,684	\$ 57,144
0.11%	0.16%	0.55%	1.43%	0.46%	4.16%

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 1,615,771	\$ 1,698,571	\$ 1,549,186	\$ 1,162,464
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 13,380	\$ 12,215	\$ 10,125	\$ 10,086	\$ 4,407	\$ 2,741
<u>(13,380)</u>	<u>(12,215)</u>	<u>(10,125)</u>	<u>(10,086)</u>	<u>(4,407)</u>	<u>(2,741)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,255,708	\$ 1,221,469	\$ 1,012,546	\$ 1,008,554	\$ 440,746	\$ 274,115
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PENSION

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Klepinger Community School Expenditures</b>	<b>Imagine Woodbury Academy Expenditures</b>	<b>Total Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>				
<i>Passed through Ohio Department of Education</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	\$ 100,711	\$ 42,327	\$ 143,038
National School Lunch Program	10.555	206,623	67,405	274,028
Total Child Nutrition Cluster		<u>307,334</u>	<u>109,732</u>	<u>417,066</u>
<b>Total U.S. Department of Agriculture</b>		<u>307,334</u>	<u>109,732</u>	<u>417,066</u>
<b><u>U.S. Department of Education</u></b>				
<i>Passed through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	<u>662,601</u>	<u>44,260</u>	<u>706,861</u>
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	<u>92,403</u>	<u>18,610</u>	<u>111,013</u>
Total Special Education Cluster (IDEA)		<u>92,403</u>	<u>18,610</u>	<u>111,013</u>
Improving Teacher Quality State Grants	84.367	<u>128,910</u>	<u>1,980</u>	<u>130,890</u>
<b>Total U.S. Department of Education</b>		<u>883,914</u>	<u>64,850</u>	<u>948,764</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 1,191,248</u>	<u>\$ 174,582</u>	<u>\$ 1,365,830</u>

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

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2018**

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**NOTE 1: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Klepinger Community School under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Klepinger Community School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Klepinger Community School.

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

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 3: INDIRECT COST RATE**

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

**NOTE 4: CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE 5: FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

The Honorable Keith Faber  
Auditor of State  
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Klepinger Community School, Montgomery County, Ohio, (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 29, 2019, wherein we noted the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and the School restated net position at June 30, 2017, due to the merger of schools.

***Internal Control Over Financial Reporting***

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

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

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

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

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

### ***Purpose of This Report***

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



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

January 29, 2019



**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125*

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
UNIFORM GUIDANCE**

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

The Honorable Keith Faber  
Auditor of State  
State of Ohio

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

We have audited the Klepinger Community School, Montgomery County, Ohio's (the School) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the School's major federal program for the year ended June 30, 2018. The School's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the Klepinger Community School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

### ***Report on Internal Control over Compliance***

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

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

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

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



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

January 29, 2019

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
UNIFORM GUIDANCE  
JUNE 30, 2018**

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**1. SUMMARY OF AUDITOR'S RESULTS**

2018(i)	Type of Financial Statement Opinion	Unmodified
2018(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2018(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2018(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2018(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2018(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2018(v)	Type of Major Programs' Compliance Opinions	Unmodified
2018(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2018(vii)	Major Programs (list):  Title I Grants to Local Educational Agencies - CFDA #84.010	
2018(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others
2018(ix)	Low Risk Auditee?	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2018**

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The prior audit report, as of June 30, 2017, included no findings or management letter recommendations.

# OHIO AUDITOR OF STATE KEITH FABER



**KIEPINGER COMMUNITY SCHOOL**

**MONTGOMERY COUNTY**

### **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 2, 2019**