TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, Ohio 43604

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Toledo School for the Arts, Lucas 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Toledo School for the Arts, Lucas County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the 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*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

February 12, 2019

The discussion and analysis of Toledo School for the Arts (TSA) financial performance provides an overall review of TSA's financial activities for the fiscal year ended June 30, 2018. Readers should also review the basic financial statements and notes to enhance their understanding of TSA's financial performance.

Highlights

For the fiscal year ended June 30, 2018, TSA's net position increased $2,720,707. This increase was primarily the result of the decrease in the net pension/OPEB liability.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and change in net position reflect how TSA did financially during fiscal year 2018. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report TSA's net position and change in net position. This change in net position is important because it tells the reader whether the financial position of TSA has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of TSA's net position for fiscal year 2018 and fiscal year 2017:

Table 1
Net Position

	2018	2017	Change
Assets			
Current Assets	$1,266,216	$1,441,450	($175,234)
Non-Current Assets (excluding capital assets)	369,181	463,506	(94,325)
Capital Assets, Net	4,986,852	5,184,788	(197,936)
Total Assets	6,622,249	7,089,744	(467,495)
Deferred Outflows of Resources			
Pension	2,300,599	2,112,056	188,543
OPEB	76,581	9,962	66,619
Total Deferred Outflows of Resources	2,377,180	2,122,018	255,162

(continued)

Table 1
Net Position
(continued)

	2018	2017	Change
Liabilities			
Current Liabilities	$1,249,712	$1,168,546	($81,166)
Non-Current Liabilities			
Pension	7,052,871	9,980,254	2,927,383
OPEB	1,560,778	1,968,433	407,655
Other Amounts	3,258,998	3,606,126	347,128
Total Liabilities	13,122,359	16,723,359	3,601,000
Deferred Inflows of Resources			
Pension	459,124	0	(459,124)
OPEB	218,329	0	(218,329)
Other Amounts	70,245	79,738	9,493
Total Deferred Inflows of Resources	747,698	79,738	(667,960)
Net Position			
Net Investment in Capital Assets	1,726,162	1,719,134	7,028
Restricted	257,119	387,832	(130,713)
Unrestricted (Deficit)	(6,853,909)	(9,698,301)	2,844,392
Total Net Position (Deficit)	($4,870,628)	($7,591,335)	$2,720,707

The net pension liability reported by TSA at June 30, 2018, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For fiscal year 2018, TSA adopted GASB Statement No. 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, end users of these financial statements will gain a clearer understanding of TSA'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.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB Statement No. 27) and postemployment benefits (GASB Statement No. 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 or net OPEB liability. GASB Statements No. 68 and No. 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.

GASB Statements No. 68 and No. 75 require the net pension liability and the net OPEB liability to equal the TSA's proportionate share of each plan's collective present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service 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, TSA 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 health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contribution 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 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. vacation and sick 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 pension benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of TSA. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability 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 Statements No. 68 and No. 75, TSA'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 the net OPEB liability, respectively, not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 75, TSA is reporting a net OPEB liability and deferred outflows/inflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($5,632,864) to ($7,591,335).

Pension/OPEB related changes are an increase in deferred outflows and deferred inflows. The decrease in the net pension/OPEB liability represents TSA's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments, and actuarial assumptions all affect the balance of the net pension liability.

A couple of factors contributed to the decrease in current and other assets; a decrease in cash and cash equivalents and a decrease in intergovernmental receivables. This decrease was partially offset by an increase in pledges receivable. The decrease in non-current assets was primarily related to resources being held by TSA's fiscal agent. The decrease in net capital assets is due to annual depreciation.

There was an increase in current and other liabilities; however, no single amount stands out. The decrease in other long-term liabilities is the result of debt retirement.

Table 2 reflects the change in net position for fiscal year 2018 and fiscal year 2017.

Table 2
Change in Net Position

	2018	2017	Change
Operating Revenues			
Foundation	$4,947,429	$4,956,289	($8,860)
Sales	322,045	312,386	9,659
Tuition and Fees	21,196	20,658	538
Other Operating Revenues	63,277	53,656	9,621
Total Operating Revenues	5,353,947	5,342,989	10,958
Non-Operating Revenues			
Operating Grants	512,036	555,160	(43,124)
Contributions and Donations	718,232	667,479	50,753
Interest Revenue	6,815	4,159	2,656
Total Non-Operating Revenues	1,237,083	1,226,798	10,285
Total Revenues	6,591,030	6,569,787	21,243
Operating Expenses			
Salaries	1,741,017	3,426,998	1,685,981
Fringe Benefits	0	3,446,095	3,446,095
Purchased Services	1,143,961	1,007,215	(136,746)
Materials and Supplies	471,641	844,159	372,518
Depreciation	228,114	227,135	(979)
Other Operating Expenses	60,445	100,585	40,140
Total Operating Expenses	3,645,178	9,052,187	5,407,009
Non-Operating Expenses			
Interest Expense	212,020	223,469	11,449
Loss on Disposal of Capital Assets	13,125	0	(13,125)
Total Non-Operating Expenses	225,145	223,469	(1,676)
Total Expenses	3,870,323	9,275,656	5,405,333
Increase (Decrease) in Net Position	2,720,707	(2,705,869)	5,426,576
Net Position (Deficit) at Beginning of Year	(7,591,335)	(4,885,466)	(2,705,869)
Net Position (Deficit) at End of Year	($4,870,628)	($7,591,335)	$2,720,707

GASB Statement No. 45 required recognizing pension expense equal to contractually required contributions to the plan. Under GASB Statement No. 75, OPEB expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB Statement No. 75, the fiscal year 2018 financial statements report negative OPEB expense of $245,542. Consequently, in order to compare fiscal year 2018 total expenses to fiscal year 2017, the following adjustments are needed.

Total 2018 Expenses Under GASB Statement No. 75	$3,870,323
Negative OPEB Expense Under GASB Statement No. 75	(245,542)
2018 Contractually Required Contribution	(10,403)
Adjusted 2018 Expenses	3,614,378
Total 2017 Expenses Under GASB Statement No. 45	(9,275,656)
Decrease in Expenses Not Related to OPEB	($5,661,278)

The largest component of the decrease in expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes including a reduction in the discount rate and also voted to suspend cost of living adjustments (COLA). SERS decreased the COLA assumption. See Note 8. As a result of these changes, pension expense decreased from $902,847 in fiscal 2017 to a negative pension expense of $2,167,000 for fiscal year 2018.

The 2 percent decrease in revenues was not significant. As discussed above, the decrease in expenses is related to pension/OPEB.

Budgeting

TSA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

At the end of fiscal year 2018, TSA had $4,986,852 invested in capital assets (net of accumulated depreciation). Additions and disposals consisted of equipment. For further information regarding TSA's capital assets, refer to Note 6 to the basic financial statements.

Debt Administration

At the end of fiscal year 2018, TSA had outstanding development revenue bonds, in the amount of $2,339,169, and outstanding loans, in the amount of $1,130,862. Final maturity on the revenue bonds is in fiscal year 2028. Long-term obligations also include the net pension/OPEB liability and capital leases. For further information regarding TSA's long-term obligations, refer to Notes 11 and 12 to the basic financial statements.

Current Issues

Bowling Green State University initially adopted the sponsorship contract of TSA for a period of four years, from July 1, 2008, through June 30, 2012. The sponsorship agreement was renewed in the spring of 2012 for an additional five years through June 30, 2017. On April 11, 2017, the Board approved a new sponsorship agreement for an additional five years through June 30, 2022; however, due to changes in State legislation, this agreement now expires June 30, 2019.

The Toledo Community Foundation houses two endowment funds for the Toledo School for the Arts. The first established in July 2008; the purpose of this endowment is to provide funding for programs which would not otherwise be available through federal, state, or local sources. The balance of this endowment on June 30, 2018, was $271,587.

The second established November 1, 2016; the purpose of this endowment is also to provide funding for programs which would not otherwise be available through federal, state, or local sources. The balance of this endowment on June 30, 2017, was $30,866.

Contacting TSA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of TSA's finances and to reflect TSA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jamie Lockwood, Treasurer, Toledo School for the Arts, 333 14th Street, Toledo, Ohio, 43604.

Toledo School for the Arts
Statement of Net Position
June 30, 2018

Current Assets	
Cash and Cash Equivalents	$1,004,664
Accounts Receivable	5,420
Intergovernmental Receivable	78,701
Prepaid Items	915
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	6,931
Pledges Receivable	169,585
Total Current Assets	1,266,216
Non-Current Assets	
Restricted Assets:	
Cash and Cash Equivalents	69,491
Cash and Cash Equivalents with Fiscal Agent	250,188
Pledges Receivable	49,502
Nondepreciable Capital Assets	58,300
Depreciable Capital Assets, Net	4,928,552
Total Non-Current Assets	5,356,033
Total Assets	6,622,249
Deferred Outflows of Resources	
Pension	2,300,599
OPEB	76,581
Total Deferred Outflows of Resources	2,377,180
Current Liabilities	
Accounts Payable	397,840
Accrued Wages and Benefits Payable	474,309
Accrued Interest Payable	34,035
Intergovernmental Payable	94,336
Development Revenue Bonds Payable	160,833
Loans Payable	80,301
Capital Leases Payable	8,058
Total Current Liabilities	1,249,712
Non-Current Liabilities	
Development Revenue Bonds Payable	2,178,336
Loans Payable	1,050,561
Net Pension Liability	7,052,871
Net OPEB Liability	1,560,778
Capital Leases Payable	30,101
Total Non-Current Liabilities	11,872,647
Total Liabilities	13,122,359
Deferred Inflows of Resources	
Unavailable Revenue	70,245
Pension	459,124
OPEB	218,329
Total Deferred Inflows of Resources	747,698

(continued)

Toledo School for the Arts
Statement of Net Position
June 30, 2018
(continued)

Net Position	
Net Investment in Capital Assets	1,726,162
Restricted for:	
Current Debt Service	6,931
Future Debt Service	250,188
Unrestricted (Deficit)	(6,853,909)
Total Net Position (Deficit)	($4,870,628)

See Accompanying Notes to Basic Financial Statements

Toledo School for the Arts
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended June 30, 2018

Operating Revenues	
Foundation	$4,947,429
Sales	322,045
Tuition and Fees	21,196
Other Operating Revenues	63,277
Total Operating Revenues	5,353,947
Operating Expenses	
Salaries	1,741,017
Purchased Services	1,143,961
Materials and Supplies	471,641
Depreciation	228,114
Other Operating Expenses	60,445
Total Operating Expenses	3,645,178
Operating Income	1,708,769
Non-Operating Revenues (Expenses)	
Grants	512,036
Contributions and Donations	718,232
Interest Revenue	6,815
Interest Expense	(212,020)
Loss on Disposal of Capital Assets	(13,125)
Total Non-Operating Revenues (Expenses)	1,011,938
Change in Net Position	2,720,707
Net Position (Deficit) at Beginning of Year - Restated (Note 3)	(7,591,335)
Net Position (Deficit) at End of Year	($4,870,628)

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Foundation	$4,946,449
Cash Received from Sales	312,552
Cash Received from Tuition and Fees	21,196
Cash Received from Other Revenues	65,178
Cash Payments for Salaries	(3,566,241)
Cash Payments for Fringe Benefits	(1,079,683)
Cash Payments for Goods and Services	(1,548,230)
Cash Payments for Other Expenses	(66,339)
Net Cash Used for Operating Activities	(915,118)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	603,184
Cash Received from Contributions and Donations	636,879
Net Cash Provided by Noncapital Financing Activities	1,240,063
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Development Revenue Bonds	(278,333)
Interest Paid on Development Revenue Bonds	(157,438)
Principal Paid on Loans	(76,661)
Interest Paid on Loans	(55,791)
Lease Principal	(20,773)
Lease Interest	(1,675)
Net Cash Used for Capital and Related Financing Activities	(590,671)
Cash Flows from Investing Activities	
Cash Received from Interest	7,449
Net Decrease in Cash and Cash Equivalents	(258,277)
Cash and Cash Equivalents at Beginning of Year	1,589,551
Cash and Cash Equivalents at End of Year	$1,331,274

(continued)

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
(continued)

Reconciliation of Operating Income	
to Net Cash Used for Operating Activities	
Operating Income	$1,708,769
Adjustments to Reconcile Operating Income	
to Net Cash Used for Operating Activities	
Depreciation	228,114
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	3,894
Increase in Intergovernmental Receivable	(2,973)
Increase in Prepaids	(68)
Increase in Accounts Payable	61,147
Increase in Accrued Wages and Benefits Payable	8,621
Decrease in Intergovernmental Payable	(382)
Decrease in Deferred Inflows of Resources	(9,493)
Decrease in Net Pension Liability	(3,002,874)
Decrease in Deferrred Outflows of Resources - Pension	959,244
Decrease in Deferred Inflows of Resources - Pension	(613,172)
Decrease in Net OPEB Liability	(217,395)
Decrease in Deferrred Outflows of Resources - OPEB	13,124
Decrease in Deferred Inflows of Resources - OPEB	(51,674)
Net Cash Used for Operating Activities	($915,118)

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Fiduciary Assets and Liablilities
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	$47,313	$27,767
Liabilities		
Due to Students	0	$27,767
Net Position		
Held in Trust for Scholarships	$47,313	

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2018

	Private Purpose Trust
Additions	
Contributions and Donations	$10,776
Deductions	
Non-Instructional Services	13,804
Change in Net Position	(3,028)
Net Position at Beginning of Year	50,341
Net Position at End of Year	$47,313

See Accompanying Notes to the Basic Financial Statements

Note 1 - Description of the School

Toledo School for the Arts (TSA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. TSA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect TSA's tax exempt status. TSA's objective is to serve students who are not thriving in a traditional setting, desire meaningful learning experiences, and wish to regain a level of control over their educational experience. TSA encompasses a safe community environment, discovery based methods, parenting education, critical thinking, and problem solving. TSA's programs are currently available to students in grades 6 through 12. TSA, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. TSA may acquire facilities as needed and contract for any services necessary for the operation of TSA.

TSA was initially approved for operation under a contract with Bowling Green State University (the Sponsor) for a period of four years commencing July 1, 2008. On April 28, 2017, the contract was again renewed for an additional five years through June 30, 2022; however, due to changes in State legislation, this contract will expire June 30, 2019. The Sponsor is responsible for evaluating the performance of TSA and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

TSA operates under the direction of a sixteen member Governing Board. 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 qualifications of teachers. It is staffed by twenty classified employees, fifty-three certified teaching personnel, and nine administrative employees who provide services to six hundred seventy-seven students and other community members.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of TSA have been prepared in conformity with generally accepted accounting principles (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. Following are the more significant of the TSA's accounting policies.

A. Basis of Presentation

TSA's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and change in net position, and a statement of cash flows.

TSA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Note 2 - Summary of Significant Accounting Policies (continued)

TSA also maintains two fiduciary funds. Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by TSA under a trust agreement for individuals, private organizations, or other governments and are not available to support TSA'S own programs. TSA's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. TSA's agency fund accounts for various non-instructional student-managed activities.

B. Measurement Focus

TSA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of TSA are included on the statement of net position. The statement of revenues, expenses, and change in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how TSA finances and meets its cash flow needs.

C. Basis of Accounting

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

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. For TSA, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB and explained in Notes 8 and 9 to the basic financial statements.

In addition to liabilities, the statement of financial position may report 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 until that time. For TSA, deferred inflows of resources consists of unavailable revenue, pension, and OPEB. Unavailable revenue consists of registration fees. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position and explained in Notes 8 and 9 to the basic financial statements.

Expenses are recognized at the time they are incurred.

Note 2 - Summary of Significant Accounting Policies (continued)

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by TSA's contract with its Sponsor. The contract between TSA and its Sponsor does prescribe a budget requirement.

E. Cash and Cash Equivalents

Cash held by TSA is reflected as "Cash and Cash Equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2018, TSA invested in mutual funds which are reported at fair value. Fair value is based on current share price.

Cash and cash equivalents that are held separately with the Bank of New York are recorded as "Cash and Cash Equivalents with Fiscal Agent".

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions.

Restricted assets represent certain resources which are segregated from other resources of TSA to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of TSA or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

H. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. TSA maintains a capitalization threshold of five thousand dollars. TSA does not have any infrastructure. Improvements are capitalized. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

Description	Useful Lives
Buildings and Building Improvements	15 - 50 years
Furniture, Fixtures, and Equipment	5-40 years
Vehicles	15 years

I. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. TSA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TSA. For TSA, these revenues are generally foundation payments from the State. TSA also received operating revenues from sales (ticket and store sales) and from tuition and fees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TSA. All revenues and expenses not meeting this definition are reported as non-operating.

K. Pension/Postemployment Benefits

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

L. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Net Position

For fiscal year 2018, the TSA has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", Statement No. 85, "Omnibus 2017", and related guidance from GASB Implementation Guide No. 2017-3, "Accounting and Financial Reorting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

For fiscal year 2018, the TSA also implemented GASB Implementation Guide No. 2017-1. These changes were incorporated in the TSA's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The implementation of this statement had the following effect on net position as previously reported.

Net Position (Deficit) June 30, 2017	($5,632,864)
Net OPEB Liability	(1,968,433)
Deferred Outflows - Payments Subsequent to the Measurement Date	9,962
Restated Net Position (Deficit) June 30, 2017	($7,591,335)

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

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). These changes were incorporated in the TSA's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Deposits and Investments

At fiscal year end, the carrying amount of TSA's deposits was $1,406,354 and the bank balance was $1,577,493 of which $302,094 was exposed to custodial credit risk because it was uninsured and uncollateralized. TSA participates in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure repayment all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or at a rate set by the Treasurer of State. One of TSA's financial institutions was approved for a reduced collateral floor of 50 percent resulting in a portion of the uninsured and uncollateralized balance of $294,975.

Note 5 - Receivables

Receivables at June 30, 2018, consisted of accounts, intergovernmental, and pledges receivable. Most intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. All receivables, except pledges, are expected to be collected within one year. Pledges, in the amount of $49,502, will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Bureau of Workers' Compensation	$8,014
Idea Part-B	19,582
Title I-A	34,873
Title II-A	14,901
Title IV-A	351
Foundation	980
Total Intergovernmental Receivables	$78,701

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18
Nondepreciable Capital Assets				
Land	$58,300	$0	$0	$58,300
Depreciable Capital Assets				
Buildings and Building Improvements	6,609,021	0	0	6,609,021
Furniture, Fixtures, and Equipment	85,065	43,303	(32,813)	95,555
Vehicles	10,670	0	0	10,670
Total Depreciable Capital Assets	6,704,756	43,303	(32,813)	6,715,246
Less Accumulated Depreciation				
Buildings and Building Improvements	(1,527,291)	(212,888)	0	(1,740,179)
Furniture, Fixtures, and Equipment	(47,421)	(14,515)	19,688	(42,248)
Vehicles	(3,556)	(711)	0	(4,267)
Total Accumulated Depreciation	(1,578,268)	(228,114)	19,688	(1,786,694)
Depreciable Capital Assets, Net	5,126,488	(184,811)	(13,125)	4,928,552
Capital Assets, Net	$5,184,788	($184,811)	($13,125)	$4,986,852

Note 7 - Risk Management

TSA 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, TSA contracted for the following insurance coverage:

Coverage provided by The Netherlands Insurance Company is as follows:	
Building and Contents	$4,245,670
General School District Liability	
Per Occurrence	1,000,000
Total Per Year	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Coverage provided by The Indiana Insurance Company is as follows:	
Umbrella Liability	5,000,000

Settled claims have not exceeded this commercial coverage for the past three fiscal years and there has been no significant reduction in insurance coverage from the prior fiscal year.

Workers' compensation coverage is provided by the State of Ohio. TSA pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 8 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions, between an employer and its employees, of salaries and benefits for employee services. Pensions/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 pensions is a present obligation because it was created as a result of employment exchanges that have already occurred.

The net pension/OPEB liability represents the TSA's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/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 this estimate annually.

Note 8 - Defined Benefit Pension Plans (continued)

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

GASB Statements No. 68 and No. 75 assume 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 the employers. All pension contributions to date have come solely from the employer (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits. In addition, health care plan enrollees pay a portion of the health care cost in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within thirty years. If the amortization period exceeds thirty years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability on the accrual basis of accounting. Any liability for the contractually required pension/OPEB contribution outstanding at the end of the fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting. The remainder of this note includes the required pension disclosures. See Note 9 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

Plan Description - TSA nonteaching 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. The report can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; 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; 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.

Note 8 - Defined Benefit Pension Plans (continued)

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost of living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the TSA 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 .5 percent was allocated to the Health Care Fund.

The TSA's contractually required contribution to SERS was $102,487 for fiscal year 2018. Of this amount, $16,875 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307.

The DBP 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 is 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 sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit 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 sixty-five or thirty-five years of service credit and at least age sixty.

Note 8 - Defined Benefit Pension Plans (continued)

The DCP allows members to place all their member contributions and 9.5 percent of the 14 percent employer contribution 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate goes to the DCP and the remaining 2 percent goes to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty 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 fifty or later.

New members who choose the DCP or CP 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 CP 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 Statement No. 68 reporting purposes.

A DBP or CP 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 to apply for disability benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The TSA’s contractually required contribution to STRS was $387,315 for fiscal year 2018. Of this amount, $63,536 is reported as an intergovernmental payable.

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

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 TSA’s proportion of the net pension liability was based on the TSA’s share of contributions to the pension plan relative to the contributions of all participating entities.

Note 8 - Defined Benefit Pension Plans (continued)

Following is information related to the proportionate share and pension expense.

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.02407540%	0.02455159%	
Proportion of the Net Pension Liability Current Measurement Date	0.02410230%	0.02362770%	
Change in Proportionate Share	0.00002690%	0.00092389%	
Proportionate Share of the Net Pension Liability	$1,440,059	$5,612,812	$7,052,871
Pension Expense	($21,517)	($2,145,483)	($2,167,000)

At June 30, 2018, the TSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	$61,975	$216,741	$278,716
Changes of Assumptions	74,466	1,227,583	1,302,049
Changes in Proportionate Share and Difference Between TSA Contributions and Proportionate Share of Contributions	55,347	174,685	230,032
TSA Contributions Subsequent to the Measurement Date	102,487	387,315	489,802
Total Deferred Outflows of Resources	$294,275	$2,006,324	$2,300,599
Deferred Inflows of Resources			
Differences Between Expected and Actual Experience	$0	$45,237	$45,237
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	6,836	185,229	192,065
Changes in Proportionate Share and Difference Between TSA Contributions and Proportionate Share of Contributions	0	221,822	221,822
Total Deferred Inflows of Resources	$6,836	$452,288	$459,124

Note 8 - Defined Benefit Pension Plans (continued)

$489,802 reported as deferred outflows of resources related to pension resulting from TSA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2019	$90,386	$274,348	$364,734
2020	106,093	526,324	632,417
2021	22,044	323,449	345,493
2022	(33,571)	42,600	9,029
Total	$184,952	$1,166,721	$1,351,673

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the 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 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 pension liability in the latest actuarial valuation prepared as of June 30, 2017, are presented below.

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal

Note 8 - Defined Benefit Pension Plans (continued)

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

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Mortality among service retired members and beneficiaries were based on the RP-2014 Blue Collar Mortality Table with fully generational projections with Scale BB; 120 percent of male rates and 110 percent of female rates. Mortality among disabled members was based on 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.

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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.50%
U.S. Stocks	22.50	4.75
Non-U.S. 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	100.00%	

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 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 earnings were calculated using the long-term assumed investment rate of return (7.5 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 TSA'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 7.5 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 (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

Note 8 - Defined Benefit Pension Plans (continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
TSA's Proportionate Share of the Net Pension Liability	$1,998,428	$1,440,059	$972,311

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	2.5 percent	2.75 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 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 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, postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were 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. Preretirement mortality rates were based on the 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 were set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty were set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety 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 2, 2011, through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience effective July 1, 2012.

<u>Note 8 - Defined Benefit Pension Plans</u> (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.

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
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
	100.00%	

*10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a thirty 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. 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 TSA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the TSA'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 TSA'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.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
TSA's Proportionate Share of the Net Pension Liability	$8,045,773	$5,612,812	$3,563,405

Note 9 - Postemployment Benefits

See Note 8 for a description of the net OPEB liability.

School Employees Retirement System (SERS)

Plan Description - The TSA contributes to the SERS Health Care Fund administered by SERS for nonteaching retirees and their beneficiaries. For GASB Statement No. 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. The SERS Health Care Plan provides health care benefits to eligible individuals receiving retirement, disability and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need ten 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 sixty-five 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 State statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The 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 establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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; prorated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. State statute provides 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 TSA's surcharge obligation was $6,607.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The TSA's contractually required contribution to SERS was $10,403 for fiscal year 2018. Of this amount, $7,232 is reported as an intergovernmental payable.

Note 9 - Postemployment Benefits (continued)

State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing health care plan for eligible retirees who participated in the defined benefit and combined pension plans offered by STRS. Ohio law authorizes STRS to offer the 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 STRS financial report which can be obtained by visiting the STRS website at www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care 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 postemployment 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 postemployment health care.

Net OPEB Liability

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 TSA's proportion of the net OPEB liability was based on the TSA'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.

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	.02299380%	.02455159%	
Proportion of the Net OPEB Liability Current Measurement Date	.02380680%	.02362770%	
Change in Proportionate Share	.00081300%	.00092389%	
Proportionate Share of the Net OPEB Liability	$638,912	$921,866	$1,560,778
OPEB Expense	$42,820	($288,362)	($245,542)

Note 9 - Postemployment Benefits (continued)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	$0	$53,216	$53,216
Changes in Proportionate Share and Difference Between TSA Contributions and Proportionate Share of Contributions	12,962	0	12,962
TSA Contributions Subsequent to the Measurement Date	10,403	0	10,403
Total Deferred Outflows of Resources	$23,365	$53,216	$76,581
Deferred Inflows of Resources			
Changes of Assumptions	$60,629	$74,259	$134,888
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	1,687	39,403	41,090
Changes in Proportionate Share and Difference Between TSA Contributions and Proportionate Share of Contributions	0	42,351	42,351
Total Deferred Inflows of Resources	$62,316	$156,013	$218,329

$10,403 reported as deferred outflows of resources related to OPEB resulting from TSA contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows.

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2019	($17,693)	($20,416)	($38,109)
2020	(17,693)	(20,416)	(38,109)
2021	(13,547)	(20,416)	(33,963)
2022	(421)	(20,417)	(20,838)
2023	0	(10,566)	(10,566)
2024	0	(10,566)	(10,566)
Total	($49,354)	($102,797)	($152,151)

Note 9 - Postemployment Benefits (continued)

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 modification 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 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
Investment Rate of Return	7.5 percent net of investment expenses, 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 inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.5 to 5 percent
Pre-Medicare	7.5 to 5 percent

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

Note 9 - Postemployment Benefits (continued)

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

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, 7.5 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 ten 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 SERS Health Care Plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 8.

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 the 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 retirement system at the State statute contribution rate of 2 percent of projected covered employee payroll each year which includes a 1.5 percent payroll surcharge and .5 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 Twenty-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.

Sensitivity of the TSA's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rate - 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 and what SERS' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63 percent) or one percentage point higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.5 percent decreasing to 4 percent) and one percentage point higher (8.5 percent decreasing to 6 percent) than the current rate.

Note 9 - Postemployment Benefits (continued)

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
TSA's Proportionate Share of the Net OPEB Liability	$771,568	$638,912	$533,815

	1% Decrease (6.5% Decreasing to 4%)	Current Trend Rate (7.53% Decreasing to 5%)	1% Increase (8.5% Decreasing to 6%)
TSA's Proportionate Share of the Net OPEB Liability	$518,429	$638,912	$798,373

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	2.5 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 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 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 were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. For disabled retirees, mortality rates were 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.

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.

<u>Note 9 - Postemployment Benefits</u> (continued)

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 reimbursements was extended to January 2020.

The STRS Health Care Plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 8.

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 Twenty-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 Twenty-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 Twenty-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 TSA's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and the 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.

Note 9 - Postemployment Benefits (continued)

	1% Decrease (3.13%)	Current Discount Rate (4.16%)	1% Increase (5.13%)
TSA's Proportionate Share of the Net OPEB Liability	$1,237,590	$921,866	$672,340

	1% Decrease	Current Trend Rate	1% Increase
TSA's Proportionate Share of the Net OPEB Liability	$640,473	$921,866	$1,292,212

Note 10 - Other Employee Benefits

TSA provides medical benefits through Paramount, vision benefits through Lincoln National, and dental benefits through Delta Dental. The Board pays the entire monthly premium, except for part-time employees who pay a pro-rated portion for their benefits.

TSA also provides life insurance to active full-time employees through the Lincoln National Insurance Company.

Note 11 - Long-Term Obligations

Changes in TSA's long-term obligations during fiscal year 2018 were as follows:

	Restated Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18	Amounts Due Within One Year
Long-Term Obligations					
FY 2008 Development Revenue Bonds - 5.5%	$2,617,502	$0	$278,333	$2,339,169	$160,833
Loans Payable					
FY 2014 Loan - 4.9%	1,207,523	0	76,661	1,130,862	80,301
Net Pension Liability					
SERS	1,762,097	0	322,038	1,440,059	0
STRS	8,218,157	0	2,605,345	5,612,812	0
Total Net Pension Liability	9,980,254	0	2,927,383	7,052,871	0
Net OPEB Liability					
SERS	655,408	0	16,496	638,912	0
STRS	1,313,025	0	391,159	921,866	0
Total Net OPEB Liability	1,968,433	0	407,655	1,560,778	0
Capital Leases Payable	15,629	43,303	20,773	38,159	8,058
Total Long-Term Obligations	$15,789,341	$43,303	$3,710,805	$12,121,839	$249,192

Note 11 - Long-Term Obligations (continued)

FY 2008 Development Revenue Bonds - On December 19, 2007, Toledo Lucas County Port Authority issued bonds on behalf of TSA, in the amount of $3,750,000, for building acquisition and improvement. Of this amount, $247,500 was not capitalized. The bonds were issued for a twenty year period, with final maturity in fiscal year 2028.

The bonds are subject to optional redemption, by and at the sole option of TSA, either in whole or in part and in integral multiples of $5,000, on any date on or after November 15, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The bonds are also subject to mandatory sinking redemption at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on each May 15 and November 15, in the following principal amounts and in the years specified:

Year	May 15 Principal Amount	November 15 Principal Amount
2018		$80,000
2019	$80,000	85,000
2020	85,000	85,000
2021	90,000	95,000
2022	95,000	100,000
2023	100,000	105,000
2024	110,000	110,000
2025	115,000	120,000
2026	120,000	125,000
2027	130,000	135,000
2028	515,000	0

FY 2014 Loan - On October 20, 2013, TSA obtained a loan from the Toledo Lucas County Port Authority for building acquisition and improvement. TSA received $342,666 in fiscal year 2014 and $1,018,786 in fiscal year 2015, for a total loan of $1,361,452. The loan was issued for a fourteen year period, with final maturity in fiscal year 2029.

Principal and interest requirements to retire outstanding long-term obligations at June 30, 2018, were as follows:

	Development Revenue Bonds	
Fiscal Year Ending June 30,	Principal	Interest
2019	$160,833	$147,056
2020	170,000	137,158
2021	176,667	126,842
2022	190,834	115,950
2023	200,833	104,350
2024-2028	1,440,002	319,671
Total	$2,339,169	$951,027

Note 11 - Long-Term Obligations (continued)

Fiscal Year Ending June 30,	Loans Payable Principal	Loans Payable Interest
2019	$80,301	$52,150
2020	84,114	48,337
2021	88,108	44,342
2022	92,293	40,158
2023	96,676	35,775
2024-2028	556,765	105,487
2029-2030	132,605	3,112
Total	$1,130,862	$329,361

Net Pension/OPEB Liability - There is no repayment schedule for the net pension/OPEB liability. For additional information related to the net pension/OPEB liability, see Notes 8 and 9 to the basic financial statements.

Note 12 - Capital Leases - Lessee Disclosure

TSA has entered into capitalized leases for equipment. Principal payments in fiscal year 2018 were $7,268. All prior year leases were terminated.

	Governmental Activities
Equipment	$43,303
Less Accumulated Depreciation	(8,661)
Carrying Value at June 30, 2018	$34,642

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2018.

Year	Governmental Activities Principal	Governmental Activities Interest
2019	$8,058	$1,825
2020	8,489	1,417
2021	8,942	988
2022	9,420	536
2023	3,250	74
Total	$38,159	$4,840

Note 13 - Contingencies

A. Grants

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

B. Litigation

TSA is a defendant in three lawsuits. Although management cannot presently determine the outcome of these suits, management and their legal counsel believe, that the resolution of these matters will not materially adversely affect TSA's financial condition.

C. Full Time Equivalency

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

Under Ohio Revised 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 adjustments for fiscal year 2018 are finalized. As a result, the FTE adjustments for the fiscal year 2018 financial statements resulted in a net receivable of $873 to TSA from ODE. The amount is not material to TSA's financial statements at fiscal year end and has not been recorded.

In addition, TSA's contract with their Sponsor requires payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 have been finalized. The impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with this contract, resulted in an increase of fees of $18. This amount is not material to TSA's financial statements at fiscal year end and has not been recorded.

Note 14 - Subsequent Event

In December 2018, TSA refinanced the FY 2008 Development Revenue Bonds for $2,475,000. The refinancing reduced the amount of interest owed on is debt beginning in fiscal year 2019.

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Five Fiscal Years (1)

	2018	2017	2016	2015
TSA's Proportion of the Net Pension Liability	0.02410230%	0.02407540%	0.02240780%	0.02187400%
TSA's Proportionate Share of the Net Pension Liability	$1,440,059	$1,762,097	$1,278,611	$1,107,031
TSA's Employee Payroll	$790,757	$753,707	$688,763	$599,557
TSA's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	182.11%	233.79%	185.64%	184.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%

(1) Information prior to 2014 is not available.

Amounts presented as of the TSA's measurement date which is prior fiscal year end.

See Accompanying Notes to the Required Supplementary Information

2014
0.02187400%
$1,300,777
$515,023
252.57%
65.52%

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Five Fiscal Years (1)

	2018	2017	2016	2015
TSA's Proportion of the Net Pension Liability	0.02362770%	0.02455159%	0.02417619%	0.02317397%
TSA's Proportionate Share of the Net Pension Liability	$5,612,812	$8,218,157	$6,681,591	$5,636,712
TSA's Employee Payroll	$2,573,779	$2,597,171	$2,542,593	$2,431,746
TSA's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	218.08%	316.43%	262.79%	231.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%

(1) Information prior to 2014 is not available.

Amounts presented as of the TSA's measurement date which is prior fiscal year end.

See Accompanying Notes to the Required Supplementary Information

2014
0.02317397%
$6,714,414
$2,123,638
316.18%
69.30%

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2018	2017
TSA's Proportion of the Net OPEB Liability	0.02380680%	0.02299380%
TSA's Proportionate Share of the Net OPEB Liability	$638,912	$655,408
TSA's Employee Payroll	$790,757	$753,707
TSA's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	80.80%	86.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

Amounts presented as of the TSA's measurement date which is the prior fiscal year end.

See Accompanying Notes to the Required Supplementary Information

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net OPEB Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2018	2017
TSA's Proportion of the Net OPEB Liability	0.02362770%	0.02455159%
TSA's Proportionate Share of the Net OPEB Liability	$921,866	$1,313,025
TSA's Employee Payroll	$2,573,779	$2,597,171
TSA's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	35.82%	50.56%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

Amounts presented as of the TSA's measurement date which is the prior fiscal year end.

See Accompanying Notes to the Required Supplementary Information

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$102,487	$110,706	$105,519	$90,779
Contributions in Relation to the Contractually Required Contribution	(102,487)	(110,706)	(105,519)	(90,779)
Contribution Deficiency (Excess)	$0	$0	$0	$0
TSA's Employee Payroll	$759,163	$790,757	$753,707	$688,763
Contributions as a Percentage of Employee Payroll	13.50%	14.00%	14.00%	13.18%
Net OPEB Liability				
Contractually Required Contribution (2)	$10,403	$9,962	$5,611	$14,263
Contributions in Relation to the Contractually Required Contribution	(10,403)	(9,962)	(5,611)	(14,263)
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Employee Payroll	1.37%	1.26%	0.74%	2.07%
Total Contributions as a Percentage of Employee Payroll (2)	14.87%	15.26%	14.74%	15.25%

(1) TSA's covered payroll is the same for Pension and OPEB
(2) Includes Surcharge

See Accompanying Notes to the Required Supplementary Information

2014	2013	2012	2011	2010	2009
$83,099	$71,279	$66,600	$53,120	$38,953	$36,416
(83,099)	(71,279)	(66,600)	(53,120)	(38,953)	(36,416)
$0	$0	$0	$0	$0	$0
$599,557	$515,023	$495,165	$422,591	$287,692	$370,077
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
$5,900	$3,944	$10,211	$12,314	$7,734	$20,979
(5,900)	(3,944)	(10,211)	(12,314)	(7,734)	(20,979)
$0	$0	$0	$0	$0	$0
0.98%	0.77%	2.06%	2.91%	2.69%	5.67%
14.84%	14.61%	15.51%	15.48%	16.23%	15.51%

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$387,315	$360,329	$363,604	$355,963
Contributions in Relation to the Contractually Required Contribution	(387,315)	(360,329)	(363,604)	(355,963)
Contribution Deficiency (Excess)	$0	$0	$0	$0
TSA Employee Payroll	$2,766,536	$2,573,779	$2,597,171	$2,542,593
Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	14.00%
Net OPEB Liability				
Contractually Required Contribution	$0	$0	$0	$0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Employee Payroll	0.00%	0.00%	0.00%	0.00%
Total Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	14.00%

See Accompanying Notes to the Required Supplementary Information

2014	2013	2012	2011	2010	2009
$316,127	$276,073	$260,304	$261,309	$240,378	$223,351
(316,127)	(276,073)	(260,304)	(261,309)	(240,378)	(223,351)
$0	$0	$0	$0	$0	$0
$2,431,746	$2,123,638	$2,002,338	$2,010,069	$1,849,062	$1,718,085
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$24,317	$21,236	$20,023	$20,101	$18,491	$17,181
(24,317)	(21,236)	(20,023)	(20,101)	(18,491)	(17,181)
$0	$0	$0	$0	$0	$0
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc COLA. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below.

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, Including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Amounts reported for fiscal year 2016 and prior use mortality assumptions that were based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used the period after disability retirement.

Changes in Assumptions - STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below.

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.5 percent	2.75 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 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 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 fiscal year 2018, postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were 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. Preretirement mortality rates were based on the RP-2014 Employee Mortality Table projected forward generationally using Mortality Improvement Scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages were set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty were set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

<u>Net OPEB Liability</u>

<u>Changes in Assumptions - SERS</u>

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below.

Municipal Bond Index Rate	
Fiscal Year 2018	3.56 percent
Fiscal Year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense including inflation	
Fiscal Year 2018	3.63 percent
Fiscal Year 2017	2.98 percent

<u>Changes in Assumptions - STRS</u>

For fiscal year 2018, 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 for fiscal year 2018, 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.

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OHIO AUDITOR OF STATE
KEITH FABER

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

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, Ohio 43604

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate remaining fund information of Toledo School for the Arts, Lucas 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 February 12, 2019, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

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

School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the School's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

February 12, 2019

SCHEDULE OF FINDINGS
JUNE 30, 2018

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

FINDING NUMBER 2018-001

Material Weakness

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Accurate financial reporting is the responsibility of management and is essential to ensure the information provided to the readers of the financial statements accurately reflects the School's activity. The School should have procedures in place to prevent or detect material misstatements for the accurate presentation of the School's financial statements.

We identified the following errors requiring adjustment to the financial statements for the fiscal year ended June 30, 2018:

- Contributions and donations of $236,600 were recorded as refunds of prior year expenditures.
- Contributions and donations of $157,476 were recorded as negative salaries expenditures.

These errors were not identified and corrected prior to the School preparing its financial statements due to deficiencies in the School's internal controls over financial statement monitoring. The accompanying financial statements and accounting records have been adjusted to reflect these changes. Additional errors in smaller relative amounts were also noted for the fiscal year ended June 30, 2018.

To help ensure the School's financial statements and notes to the financial statements are complete and accurate and to help identify and correct errors and omissions, the School should adopt policies and procedures, including a final review of the statements and notes to the financial statements by the Treasurer and the governing board.

Officials' Response:

Finding 2018-001 addresses the Auditor's concern regarding the manner of accounting for transfers of excess pledge drive funds for School purposes. The School ensures that all expenditures are for a legal and proper public purpose, and the propriety of the School's use of funds is not an issue. The School has worked with the Auditor to ensure that its financial statements reflect such transfers in the preferred manner going forward.

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OHIO AUDITOR OF STATE
KEITH FABER

TOLEDO SCHOOL FOR THE ARTS

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 5, 2019

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