



Dave Yost • Auditor of State

L. HOLLINGSWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	25

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INDEPENDENT ACCOUNTANTS' REPORT

L. Hollingsworth School for the Talented and Gifted
Lucas County
824 Sixth Street
Toledo, Ohio 43605

To the Governing Board:

We have audited the accompanying financial statements of L. Hollingsworth School for the Talented and Gifted, Lucas County, Ohio (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of L. Hollingsworth School for the Talented and Gifted, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2014, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods

of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

February 5, 2014

L. Hollingworth School for the Talented and Gifted
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

As management of the L. Hollingworth School for the Talented and Gifted (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- Total net assets of the School increased \$300,499 in fiscal year 2012. Ending net assets of the School were \$770,797.
- Total assets increased \$317,377 from the prior year and total liabilities increased by \$16,878 during this same 12 month period.
- The School's operating loss for fiscal year 2012 was \$133,592 compared with an operating loss of \$269,160 reported for the prior year. Total revenues increased by \$10,620 while operating expenses increased by \$61,794 over those reported for the prior year.

Using this Annual Financial Report

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

Reporting the Schools Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows

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

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

L. Hollingworth School for the Talented and Gifted
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

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

The Statement of Cash Flows provides information about how the School is meeting the cash flow needs of its operations.

Financial Analysis

Table 1 provides a summary of the School's net assets for 2012 and 2011:

Table 1
Net Assets at Year End

	2012	2011
Assets:		
Current Assets	\$ 824,311	\$ 494,456
Capital Assets, Net	68,127	80,605
Total Assets	892,438	575,061
Liabilities		
Current Liabilities	121,641	104,763
Total Liabilities	121,641	104,763
Net Assets:		
Invested in Capital Assets	68,127	80,605
Restricted	24,243	31,261
Unrestricted	678,427	358,432
Total Net Assets	\$ 770,797	\$ 470,298

The total assets of the School increased by \$317,377 from total assets reported for fiscal year 2011. The increase in assets was primarily a result of the increase to cash and cash equivalents due to increased revenues relating to the increase in enrollment.

The total net assets reported for fiscal year 2012 improved by \$300,499. Unrestricted net assets increased by \$319,995 while restricted net assets decreased by \$7,018. Net assets invested in capital assets decreased by \$12,478 due to current year depreciation exceeding additions.

L. Hollingworth School for the Talented and Gifted
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Financial Analysis

Table 2 provides a summary of the School's change in net assets for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Foundation Revenues	\$ 1,428,687	\$ 1,231,068
Food Services	2,846	3,103
Total Operating Revenues	<u>1,431,533</u>	<u>1,234,171</u>
Operating Expenses:		
Salaries and Wages	674,602	589,092
Fringe Benefits	203,947	145,899
Purchased Services	443,213	429,021
Materials and Supplies	186,831	284,903
Depreciation	21,427	16,755
Other	35,105	37,661
Total Operating Expenses	<u>1,565,125</u>	<u>1,503,331</u>
Operating Loss	<u>(133,592)</u>	<u>(269,160)</u>
Nonoperating Revenues		
Federal Grants	428,199	610,911
State Grants	2,025	6,098
Other Nonoperating Revenues	3,867	3,824
Total Nonoperating Revenues	<u>434,091</u>	<u>620,833</u>
Change in Net Assets	300,499	351,673
Net Assets, Beginning of Year	<u>470,298</u>	<u>118,625</u>
Net Assets, End of the Year	<u><u>\$ 770,797</u></u>	<u><u>\$ 470,298</u></u>

Total revenue increased \$10,620 for fiscal year 2012 compared with the prior fiscal year primarily due to the increased revenue from the Ohio Department of Education directly related to higher student enrollment compared to the previous fiscal year, offset by a decrease in federal grant funding resulting from phase out of stimulus funds.

Expenses reported for fiscal year 2012 were \$61,794 higher than expenses reported for fiscal year 2011 primarily due to higher student enrollment.

L. Hollingworth School for the Talented and Gifted
Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Capital Assets

At fiscal year-end, the School's net capital asset balance was \$68,127, a decrease of \$12,478 in comparison with the prior fiscal year. This decrease represents the amount in which current year depreciation of \$21,427 exceeded current year additions of \$8,949. For more information on capital assets, see Note 5 to the basic financial statements.

Debt

The School has no debt.

Contacting the School

This financial report is designed to provide a general overview of the finances of the L. Hollingworth School for the Talented and Gifted and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of L. Hollingworth School for the Talented and Gifted, 824 Sixth Street, Toledo, Ohio 43605.

**L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

Assets:

Current Assets	
Cash and Cash Equivalents	\$ 758,308
Intergovernmental Receivable	65,342
Prepaid Items	661
Total Current Assets	<u>824,311</u>
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	68,127
Total Assets	<u>892,438</u>

Liabilities:

Current Liabilities	
Accounts Payable	36,520
Accrued Wages and Benefits Payable	61,034
Intergovernmental Payable	24,065
Unearned Revenue	22
Total Current Liabilities	<u>121,641</u>

Net Assets:

Invested in Capital Assets	68,127
Restricted	24,243
Unrestricted	678,427
Total Net Assets	<u>\$ 770,797</u>

See accompanying notes to the basic financial statements.

**L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:	
Foundation Revenues	\$ 1,428,687
Charges for Services	2,846
Total Operating Revenues	<u>1,431,533</u>
Operating Expenses:	
Salaries and Wages	674,602
Fringe Benefits	203,947
Purchased Services	443,213
Materials and Supplies	186,831
Depreciation	21,427
Other	35,105
Total Operating Expenses	<u>1,565,125</u>
Operating Loss	<u>(133,592)</u>
Non-Operating Revenues:	
Federal Grant Revenue	428,199
State Grant Revenue	2,025
Other Revenue	3,867
Total Non-Operating Revenues	<u>434,091</u>
Change in Net Assets	300,499
Net Assets Beginning of Year	<u>470,298</u>
Net Assets End of Year	<u><u>\$ 770,797</u></u>

See accompanying notes to the basic financial statements.

**L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash Flows from Operating Activities:	
Received from Foundation Revenues	\$ 1,454,859
Received from Customers	2,846
Payments to Suppliers for Goods and Services	(620,856)
Payments to Employees for Services and Benefits	(860,644)
Payments for Other Operating Disbursements	(36,781)
Net Cash Used for Operating Activities	<u>(60,576)</u>
Cash Flows from Noncapital Financing Activities:	
Received from Federal Grants	420,517
Received from State Grants	2,025
Received from Other Non-Operating Revenues	3,867
Net Cash Provided by Noncapital Financing Activities	<u>426,409</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(8,949)
Net Cash Used for Capital and Related Financing Activities	<u>(8,949)</u>
Net Increase in Cash and Cash Equivalents	356,884
Cash and Cash Equivalents at Beginning of Year	401,424
Cash and Cash Equivalents at End of Year	<u>\$ 758,308</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (133,592)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	21,427
Changes in Assets and Liabilities:	
Accounts Receivable	9,200
Prepaid Items	(661)
Intergovernmental Receivable	26,172
Accounts Payable	8,314
Accrued Wages and Benefits Payable	6,174
Intergovernmental Payable	2,390
Net Cash Used for Operating Activities	<u>\$ (60,576)</u>

See accompanying notes to the basic financial statements.

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**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 – Description of the School and Reporting Entity

L. Hollingworth School for the Talented and Gifted (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 and aspires to create an educational environment that provides academic acceleration, personalized support, authentic assessment, and school-wide differentiated learning activities. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The Buckeye Community Hope Foundation is the School's sponsor. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 15 non-certified and 14 certificated full time teaching personnel who provided services to 192 students during the 2011-2012 school year.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The School's most significant accounting policies are described below.

A. Basis of Presentation

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

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The difference between total assets and liabilities are defined as net assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

C. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 2 – Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

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

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School maintains a capitalization threshold of \$1,500. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimate Life</u>
Leasehold Improvements	15 years
Computers and Equipment	5 years

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

G. Intergovernmental Revenue

The School is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as nonoperating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled \$1,428,687 and revenues associated with specific education grants from the state and federal governments totaled \$430,224 during fiscal year 2012.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 2 – Summary of Significant Accounting Policies (Continued)

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program and charges for food service. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies, depreciation and other.

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

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its Statement of Net Assets relating to expenses, which are due but unpaid as of June 30, 2012, including:

Wages and benefits payable – salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2012 contract.

Intergovernmental payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2012 that were paid in the subsequent fiscal year.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net assets of the School at year-end represent resources held for food service programs and unspent state and federal grant proceeds. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 3 – Deposits

At June 30, 2012, the carrying amount of the School's deposits was \$758,308 and bank balance was \$770,446. The School's entire bank balance is covered by the Federal Depository Insurance Corporation. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 4 – Intergovernmental Receivables

All intergovernmental receivables are considered collectable in full due to the stable condition of State programs. The principal items of receivables at June 30, 2012 is as follows:

<u>Grant Receivables</u>	<u>Amount</u>
Federal Grants:	
Education Jobs	\$ 12,188
Race to the Top	28,216
IDEA-B	3,996
Title III	3,045
Title I	17,897
	<u>\$ 65,342</u>

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012 is as follows:

Capital Assets:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Computers and Equipment	\$ 103,740	\$ 5,715	\$ -	\$ 109,455
Leashold Improvements	-	3,234	-	3,234
Total Capital Assets	<u>103,740</u>	<u>8,949</u>	<u>-</u>	<u>112,689</u>
Less Accumulated Depreciation:				
Computers and Equipment	(23,135)	(21,319)	-	(44,454)
Leashold Improvements	-	(108)	-	(108)
Total Accumulated Depreciation	<u>(23,135)</u>	<u>(21,427)</u>	<u>-</u>	<u>(44,562)</u>
Capital Assets, Net	<u>\$ 80,605</u>	<u>\$ (12,478)</u>	<u>\$ -</u>	<u>\$ 68,127</u>

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 6 – Risk Management

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During 2012, the School obtained private insurance coverage for property and general liability insurance.

Collective coverage amounts are as follows:

Commercial Property (Coinsurance is 90%; \$1,000 deductible)	
Business Personal Property Included	\$ 4,501,419
Business Income & Extra Expense	\$ 100,000
General Liability:	
Per Occurrence	\$ 1,000,000
Aggregate Total	\$ 3,000,000
Employment Practices Liability:	
Each Wrongful Act / Aggregate Limit	\$ 1,000,000
Vehicle Coverage:	
Combined Single Limit / Uninsured Motorist Liability	\$ 1,000,000

There was no significant reduction in coverage during the year. Settlement amounts have not exceeded coverage amounts during the last three years.

B. Workers' Compensation

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

C. Employee Medical and Dental Benefits

The School carries their medical and dental insurance through Medical Mutual of Ohio. The School pays 80% of medical and dental benefits for employees. The employee is responsible for the remainder of the premiums. The annual cost of medical insurance is based upon gender and age.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 7 – Defined Benefit Pension Plans

(a) School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and 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 state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$35,677, \$25,226 and \$8,520 respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the School has contributed 81% of the required amount. The unpaid contribution has been recorded as a liability.

(b) State Teachers Retirement System

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 7 – Defined Benefit Pension Plans (Continued)

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 7 – Defined Benefit Pension Plans (Continued)

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011 and 2010 were \$51,268, \$49,182 and \$18,838, respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the School has contributed 79% of the required amount. The unpaid contribution has been recorded as a liability.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 7 – Defined Benefit Pension Plans (Continued)

(c) Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. The Board's liability is 6.2% of wages paid.

Note 8 – Post-employment Benefits

(a) School Employees Retirement System

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

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.00 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The School's contributions for the years ended June 30, 2012, 2011 and 2010 were \$2,107, \$1,623 and \$507, respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the School has contributed 81% of the required amount. The unpaid contribution has been recorded as a liability.

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 8 – Post-employment Benefits (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care, including the surcharge, for the years ended June 30, 2012, 2011 and 2010 were \$7,062, \$6,232 and \$1,617 respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the School has contributed 81% of the required amount. The unpaid contribution has been recorded as a liability.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

(b) State Teachers Retirement System

Plan Description - The School contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by writing 275 E. Broad St., Columbus, OH 43215-3371, by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 8 – Post-employment Benefits (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$3,944, \$3,783 and \$1,449, respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the School has contributed 79% of the required amount. The unpaid contribution has been recorded as a liability.

Note 9 – Contingencies

- A. Grants Review** - The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.
- B. State Funding** - The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2012, the review verified the funding received during fiscal year 2012 was accurate.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 10 – Operating Leases

The School is party to a lease agreement with Toledo Sacred Heart of Jesus Parish for school facilities. The terms lease is for a term of three years commencing on September 1, 2009 and terminating on August 30, 2012. The lease was renewed for another one year commencing September 1, 2012. The minimum rent during the lease term is \$120,000 per annum, payable in monthly installments of \$10,000. Lease payments paid to Sacred Heart during the fiscal year totaled \$120,000.

On April 15, 2011, the School entered into a lease agreement with GE Capital Solutions for a copier. The lease terms call for a monthly payment of \$362 for 36 months. During the fiscal year, payments on this lease totaled \$4,344.

On April 9, 2012, the School entered into a lease agreement with GE Capital Solutions for a second copier. The lease terms call for a monthly payment of \$166 for 36 months. During the fiscal year, payments on this lease totaled \$332.

Note 11 – Contracted Fiscal Services

The School is a party to a fiscal services agreement with Mangen & Associates (M&A) School Resource Center, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A School Resource Center will perform the following functions for the School:

1. Standard Treasurer Services, including general ledger entries, basic record keeping required documents for state and federal governments, and basic accounting reports to Director and Board.
2. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource call support.
3. Basic SIS/DASL/CSADM/EMIS Services, including setup, maintenance, and input of Student and Staff data directly into the EMIS subsystem. In addition, M&A will input all school provided attendance, classroom, test scores and all other required student information into the SIS/DASL system.

In addition, Mangen & Associates provides various business and operations support services to the School. The total fee paid to Mangen and Associates for all of these services during fiscal year 2012 was \$109,159.

**L. Hollingworth School for the Talented and Gifted
Lucas County**

Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 12 – Purchased Services

During the fiscal year ended June 30, 2012, other purchased service expenses for services rendered by various vendors were as follows:

Instructional Improvement	\$ 27,696
Health Services	188
Legal Services	13,960
Other Professional and Technical Services	230,643
Garbage Removal and Cleaning	6,635
Repairs and Maintenance Services	2,448
Rentals	120,362
Other Property Services	450
Meeting and Travel Expenses	4,692
Postage	319
Advertising	17,493
Utilities	17,577
Transportation Services	750
Total	<u>\$ 443,213</u>



Dave Yost • Auditor of State

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

L. Hollingsworth School for the Talented and Gifted
Lucas County
824 Sixth Street
Toledo, Ohio 43605

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 L. Hollingsworth School for the Talented and Gifted, Lucas County, Ohio (the School) as of and for the year ended June 30, 2012, 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 5, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

February 5, 2014



Dave Yost • Auditor of State

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED

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 11, 2014