# OAKSTONE COMMUNITY SCHOOL
## FRANKLIN COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Oakstone Community School
Franklin County
5747 Cleveland Ave
Columbus, Ohio 43231

To the Board of Trustees:

***Report on the Financial Statements***

We have audited the accompanying financial statements of Oakstone Community School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

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Phone: 614-466-3402 or 800-443-9275
**www.ohioauditor.gov**

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oakstone Community School, Franklin County, Ohio as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. We did not modify our opinion regarding this matter.

### *Other Matters*

*Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2016, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

**Dave Yost**
Auditor of State
Columbus, Ohio

February 17, 2016

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The discussion and analysis of the Oakstone Community School's (the "School") financial performance provides an overall review of the School's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

## Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- In total, net position was ($2,290,657) at June 30, 2015.
- The School had operating revenues of $7,270,913, operating expenses of $7,738,772 and non-operating revenues of $146,428 for fiscal year 2015. Total change in net position for the fiscal year was a decrease of $321,431.

## Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

## Reporting the School's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer this question. These statements include all assets and deferred outflows, liabilities and deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and changes in that net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

The Statement of Cash Flows provides information about how the School finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 11 of this report.

The table below provides a summary of the Statement of Net Position for fiscal year 2015 and 2014.

| | 2015 | 2014 (Restated) |
|---|---|---|
| **Assets** | | |
| Current assets | $ 331,245 | $ 482,514 |
| Non-current assets, net | 36,078 | 35,935 |
| Total assets | 367,323 | 518,449 |
| **Deferred Outflows of Resources** | | |
| Pension | 453,138 | 502,276 |
| Total Deferred Outflows of Resources | 453,138 | 502,276 |
| **Liabilities** | | |
| Current liabilities | 376,928 | 112,067 |
| Long term liabilities | 36,444 | 55,785 |
| Net Pension Liability | 2,360,606 | 2,822,099 |
| Total liabilities | 2,773,978 | 2,989,951 |
| **Deferred Inflows of Resources** | | |
| Pension | 337,140 | - |
| Total Deferred Inflows of Resources | 337,140 | - |
| **Net Position** | | |
| Net investment in Capital Assets | 4,078 | 3,935 |
| Restricted | 32,000 | 32,000 |
| Unrestricted | (2,326,735) | (2,005,161) |
| Total Net Position | $ (2,290,657) | $ (1,969,226) |

*Restatement*
During 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national and apply to all governmental financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the School, part of a bargained-for benefit to the employee, and should accordingly be reported by the School as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $350,597 to ($1,969,226).

*Changes not related to GASB 68*
Current Assets decreased in fiscal year 2015 mainly due to a decrease in cash of $150,542 as a result of operations.

At June 30, 2015, capital assets represented just over 1% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

Deferred Outflows of Resources related to pensions decreased. See Note 8 for detailed information.

Current liabilities increased in fiscal year 2015 significantly. This was due to larger accounts payable as a result of delaying payment on a severance agreement as well as placement contract services until fiscal year 2016 because of limited resources. This was offset by a decrease in intergovernmental payable due to higher than normal amounts owed to SERS in fiscal year 2014.

The School's long term liabilities consist of compensated absences and net pension liability. Compensated absences decreased due to separation of the Superintendent offset by increases for the Fiscal Officer due to leave accruals. See the above information and Note 8 regarding net pension liability.

Deferred Inflows of Resources related to pensions increased. See Note 8 for detailed information.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the School's net position was ($2,290,657) compared to ($1,969,226) at June 30, 2014. The School's net position decreased $321,431 during fiscal year 2015 primarily due to the separation of the School's Superintendent resulting in a large severance.

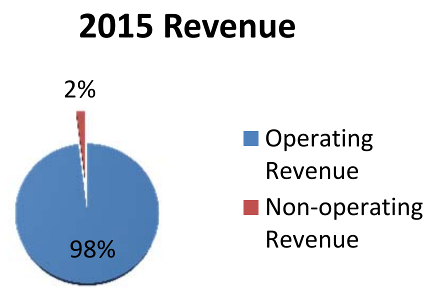
The table below shows the changes in net position for fiscal year 2015 and 2014:

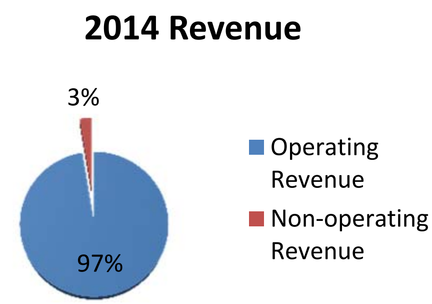
| | 2015 | 2014 (Restated) |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation | $ 7,266,986 | $ 7,207,899 |
| Other | 3,927 | 3,354 |
| Total operating revenues | 7,270,913 | 7,211,253 |
| **Non-operating Revenues:** | | |
| Federal and state grants | 143,118 | 192,147 |
| Donations | 3,142 | 736 |
| Interest income | 168 | 139 |
| Total non-operating revenues | 146,428 | 193,022 |
| Total revenues | 7,417,341 | 7,404,275 |
| **Operating Expenses:** | | |
| Salaries and wages | 1,191,059 | 1,131,958 |
| Fringe benefits | 147,653 | 276,455 |
| Purchased services | 6,379,525 | 5,915,258 |
| Materials and supplies | 18,607 | 64,820 |
| Depreciation | 1,928 | 1,274 |
| Total operating expenses | 7,738,772 | 7,389,765 |
| Change in net position | (321,431) | 14,510 |
| Net position at beginning of year | (1,969,226) | N/A |
| Net position at end of year | $ (2,290,657) | $ (1,969,226) |

State foundation revenue increased slightly due to a 1% increase in per student funding and a slight increase in enrollment from 250.19 FTE during fiscal year 2014 to 251.87 in fiscal year 2015. Interest income and donations increased from 2014. Federal grant revenue decreased substantially in the Title VI-B IDEA Special Education funding and in the Medicaid in Schools Program funding. The decrease in Title VI-B IDEA was due to timing of reimbursements.

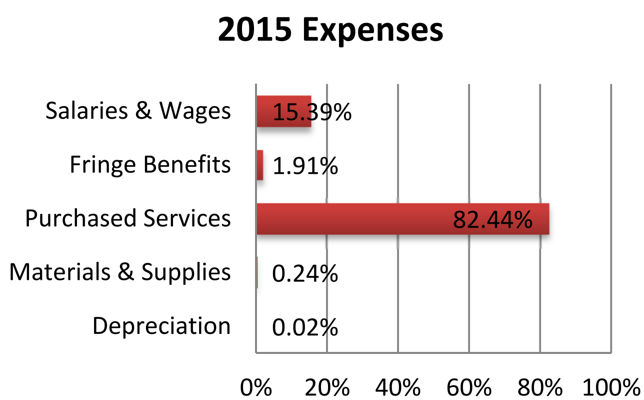
Salaries and wages increased during 2015 due to a large severance payment that was offset by reductions in staffing. Fringe benefits decreased due to decreased staffing as well as the implementation of GASB 68. Purchased services increased due to an increase in students placed out for services. Materials and supplies decreased due to providing supplies for additional classrooms in fiscal year 2014. Depreciation increased with the increase in capital assets.

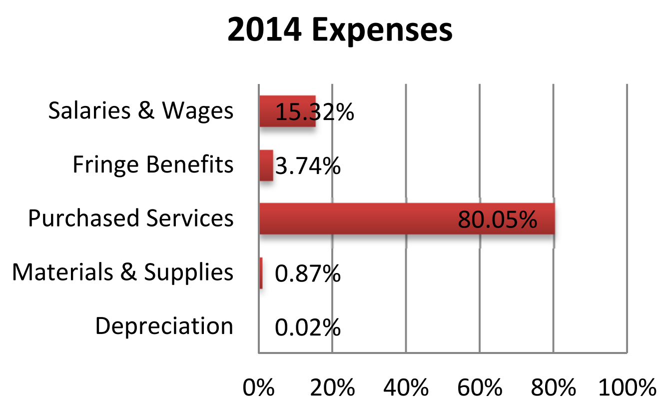
The charts below illustrate the revenues for the School during fiscal 2015 and 2014:




The charts below illustrate the expenses for the School during fiscal 2015 and 2014:




**Capital Assets**

At June 30, 2015, the School had $4,078 invested in furniture and computer equipment. Capital assets increased a net of $143 in 2015. The School had additions, disposals, and also had $1,928 in depreciation expense for the year. The disposals were fully depreciated. See Note 5 to the basic financial statements for more detail on capital assets.

**Debt Administration**

The School had no debt outstanding during fiscal year 2015 or as of June 30, 2015.

### Current Financial Related Activities

The School is sponsored by the Educational Service Center of Central Ohio. The School is reliant upon State Foundation monies and Federal Grants to offer quality, educational services to students. In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

### Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Johanna Gladman, CPA, Fiscal Officer, Oakstone Community School, 5747 Cleveland Avenue, Columbus, Ohio 43231.

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET POSITION**
**JUNE 30, 2015**

| | |
|---|---|
| **Assets:** | |
| *Current assets:* | |
| Cash | $ 300,421 |
| Intergovernmental Receivable | 26,653 |
| Prepaids | 4,171 |
| *Total current assets* | 331,245 |
| *Non-current assets:* | |
| Security deposit | 32,000 |
| Capital assets, net | 4,078 |
| *Total non-current assets* | 36,078 |
| Total assets | 367,323 |
| **Deferred Outflows of Resources:** | |
| Pension | 453,138 |
| Total Deferred Outflows of Resources | 453,138 |
| **Liabilities:** | |
| *Current:* | |
| Accounts payable | 310,250 |
| Accrued wages and benefits | 56,041 |
| Intergovernmental payable | 10,637 |
| *Total current liabilities* | 376,928 |
| *Long-term liabilities:* | |
| Compensated absences | 36,444 |
| Net Pension Liability | 2,360,606 |
| *Total long term liabilities* | 2,397,050 |
| Total liabilities | 2,773,978 |
| **Deferred Inflows of Resources:** | |
| Pension | 337,140 |
| Total Deferred Inflows of Resources | 337,140 |
| **Net Position:** | |
| Net Investment in Capital Assets | 4,078 |
| Restricted for: | |
| Security deposit | 32,000 |
| Unrestricted | (2,326,735) |
| Total Net Position | $ (2,290,657) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2015**

| | |
|---|---|
| **Operating revenues:** | |
| State foundation | $ 7,266,986 |
| Other | 3,927 |
| Total operating revenues | 7,270,913 |
| **Operating expenses:** | |
| Salaries and wages | 1,191,059 |
| Fringe benefits | 147,653 |
| Purchased services | 6,379,525 |
| Materials and supplies | 18,607 |
| Depreciation | 1,928 |
| Total operating expenses | 7,738,772 |
| Operating loss | (467,859) |
| **Non-operating revenues:** | |
| Federal and state grants | 143,118 |
| Donations | 3,142 |
| Interest income | 168 |
| Total non-operating revenues | 146,428 |
| Change in Net Position | (321,431) |
| **Net Position at beginning of year - Restated see Note 3** | (1,969,226) |
| **Net Position at end of year** | $ (2,290,657) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## OAKSTONE COMMUNITY SCHOOL
## FRANKLIN COUNTY, OHIO

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED JUNE 30, 2015

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from State foundation | $ 7,256,346 |
| Cash payments for salaries and benefits | (1,369,432) |
| Cash payments to suppliers for goods and services | (6,181,113) |
| Cash payments for materials and supplies | (20,406) |
| Cash received for other operating activities | 3,927 |
| Net cash used in operating activities | (310,678) |
| **Cash flows from noncapital financing activities:** | |
| Federal and state grants | 158,897 |
| Donations | 3,142 |
| Net cash provided by noncapital financing activities | 162,039 |
| **Cash flows from capital and related financing activities:** | |
| Acquisition of capital assets | (2,071) |
| Net cash used in capital and related financing activities | (2,071) |
| **Cash flows from investing activities:** | |
| Interest received | 168 |
| Net cash provided by investing activities | 168 |
| Net decrease in cash and cash equivalents | (150,542) |
| **Cash and cash equivalents at beginning of year** | 450,963 |
| **Cash and cash equivalents at end of year** | $ 300,421 |
| **Reconciliation of operating loss to net cash used by operating activities:** | |
| Operating loss | $ (467,859) |
| Adjustments: | |
| Depreciation | 1,928 |
| Changes in assets and liabilities: | |
| Increase in intergovernmental receivable | (16,985) |
| Decrease in prepayments | 1,933 |
| Increase in accounts payable | 287,652 |
| Decrease in accrued wages and benefits | (592) |
| Decrease in intergovernmental payable | (22,199) |
| Decrease in compensated absences payable | (19,341) |
| Decrease in net pension liability | (461,493) |
| Changes in deferred outflows/inflows: | |
| Decrease in deferred outflow | 49,138 |
| Increase in deferred inflow | 337,140 |
| Net cash used in operating activities | $ (310,678) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## NOTE 1 - DESCRIPTION OF THE SCHOOL

The Oakstone Community School (the “School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School 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 the School’s tax-exempt status. The School specializes in providing educational services to special needs children with Autism Spectrum Disorders. Specific activities in support of the School include general teaching, therapy and socialization activities. The School, which is part of the state’s education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School began operations on October 4, 2004. The School contracted with the Educational Service Center of Central Ohio (the “Sponsor”) for a period of three years commencing July 1, 2014. The Sponsor is responsible for evaluating the performance of the School. The current contract will expire on June 30, 2017.

The School operates under the direction of a self-appointed Board of Trustees. The Board operates with a minimum of five members. 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 qualification of teachers. The School was staffed by 9 certificated personnel and 9 non-certified staff members who provided services to 271 students (251.87 full time equivalents) during fiscal year 2015.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Basis of Presentation

The School’s basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

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

### B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the School are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position. The Statement of Cash Flows reflects how the School finances meet its cash flow needs.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### C. Basis of Accounting

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

### D. Budgetary Process

Unlike other public schools located in the State of Ohio, the School is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis.

### E. Cash

Cash received by the School is reflected as "Cash" on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2015.

### F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of $1,000. The School 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. The School does not capitalize interest.

All capital assets are depreciated. The School's capital assets consist of furniture and equipment. Depreciation is computed using the straight-line method. Furniture and equipment are depreciated over five years.

### G. Compensated Absences

Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. Unused sick leave is banked for use during the following school year but is only paid out upon resignation or termination after ten years of employment with the School. The Superintendent and Fiscal Officer contracts contain a provision for payment of 25% of sick leave to be paid upon termination or resignation at the current rate of pay. The School records a liability for employees with accumulated unused vacation leave when earned.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### H. Prepayments

Payments made to vendors or employees for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the payment by the School and the expense is recorded when used. The School has prepaid items of $4,171 at June 30, 2015.

### I. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources are reported for pension.

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

### J. Net Position

Net position represents the difference between assets, deferred outflows/inflows of resources, and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The School had restricted net position related to amounts held by a lessor as part of the School’s lease agreement totaling $32,000.

### K. Operating Revenues and Expenses

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### L. Estimates

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

## NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the School implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. The implementation of these pronouncements had the following effect on net position as reported June 30, 2014:

| | |
|---|---|
| Net position June 30, 2014 | $350,597 |
| | |
| Adjustments: | |
| Net Pension Liability | ($2,822,099) |
| Deferred Outflow - Payments Subsequent to Measurement Date | $158,474 |
| Deferred Outflow - Changes in Proportionate Share Percentage | |
| between Measurement Dates | $343,802 |
| | |
| Restated Net Position June 30, 2014 | ($1,969,226) |
| | |

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

## NOTE 4 – DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School’s deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2015, the carrying amount of the School’s deposits was $300,421 and the bank balance was $304,404. Federal Deposit Insurance Corporation (FDIC) covered $250,000 of the bank balance. The remaining amount was collateralized by the financial institution’s public entity deposit pool. There are no significant statutory restrictions regarding the deposit and investment of funds by the School.

## NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | June 30, 2014 | Additions | Disposals | June 30, 2015 |
|---|---|---|---|---|
| Depreciable capital assets: | | | | |
| Furniture | $ 4,500 | $ - | $ - | $ 4,500 |
| Equipment | 107,785 | 2,071 | (55,774) | 54,082 |
| Less: accumulated depreciation | (108,350) | (1,928) | 55,774 | (54,504) |
| Capital assets, net | $ 3,935 | $ 143 | $ - | $ 4,078 |

## NOTE 6 - BUILDING LEASE AND SECURITY DEPOSIT

The School operations are located in space leased from the Children's Center for Developmental Enrichment (CCDE). As part of the original lease agreement from fiscal year 2005, the School was required to pay a security deposit of $32,000. This amount is being held by the Lessor and will be remitted to the School at the end of the lease if all lease commitments are paid. The lease agreement for fiscal year 2015 required $360,000 in lease payments. The lease expired on June 30, 2015, but was renewed for fiscal year 2016.

## NOTE 7 - RECEIVABLES

The School had no accounts receivable as of June 30, 2015. The School had $26,653 in intergovernmental receivables outstanding at June 30, 2015.

## NOTE 8 – DEFINED BENEFIT PENSION PLANS

***Net Pension Liability***

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees).

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)**

***Net Pension Liability (continued)***

State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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

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

Age and service requirements for retirement are as follows:

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund).

## NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

***Plan Description - School Employees Retirement System (SERS) (continued)***

Funding Policy (continued) - For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $79,562 for fiscal year 2015. The full amount was paid during fiscal year 2015.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

## NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

***Plan Description - State Teachers Retirement System (STRS) (continued)***

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $80,946 for fiscal year 2015. Of this amount $4,975 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $765,923 | $1,594,683 | $2,360,606 |
| Proportion of the Net Pension Liability | 0.015134% | 0.00655615% | |
| Pension Expense | ($105,696) | $30,481 | ($75,215) |

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)***

At June 30, 2015, the School 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 due to change in proportionate share | | | |
| percentage between measurement dates | $90,465 | $184,577 | $275,042 |
| Differences between expected and | | | |
| actual experience | $5,692 | $11,896 | $17,588 |
| District contributions subsequent to the | | | |
| measurement date | 79,562 | 80,946 | 160,508 |
| Total Deferred Outflows of Resources | $175,719 | $277,419 | $453,138 |
| **Deferred Inflows of Resources** | | | |
| Net difference between projected and | | | |
| actual earnings on pension plan investments | $108,538 | $228,602 | $337,140 |
| Total Deferred Inflows of Resources | $108,538 | $228,602 | $337,140 |

$160,508 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2016 | ($3,095) | ($8,033) | ($11,128) |
| 2017 | (3,095) | (8,033) | (11,128) |
| 2018 | (3,095) | (8,033) | (11,128) |
| 2019 | (3,094) | (8,032) | (11,126) |
| Total | ($12,379) | ($32,131) | ($44,510) |

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

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)**

***Actuarial Assumptions - SERS***

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, 2014, are presented below:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflati | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

The most recent experience study was completed June 30, 2010.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 1.00 % | 0.00 % |
| US Stocks | 22.50 | 5.00 |
| Non-US Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | 15.00 | 7.50 |
| Total | 100.00 % | |

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)**

***Actuarial Assumptions – SERS (continued)***

***Discount Rate*** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

***Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| School's proportionate share of the net pension liability | $1,092,745 | $765,923 | $491,038 |

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)**

***Actuarial Assumptions – STRS (continued)***

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

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

***Discount Rate*** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| School's proportionate share of the net pension liability | $2,282,962 | $1,594,683 | $1,012,630 |

## NOTE 9 - POSTEMPLOYMENT BENEFITS

### A. School Employees Retirement System

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

*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.

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, 2015, the health care allocation is .82%. 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. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at $20,450. 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 contributions, including the surcharge, assigned to health care for the years ended June 30, 2015, 2014, and 2013 were $5,256, $4,762, and $3,690, respectively; 58% has been contributed for fiscal year 2015 with the balance being reported as intergovernmental payable; 100% has been contributed for fiscal years 2014 and 2013.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for healthcare 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.

## NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

### B. State Teachers Retirement System

1. Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

2. Funding Policy

Under Ohio law, funding for postemployment healthcare may be deducted from employer contributions. Of the 14% employer contribution rates, 0% of covered payroll was allocated to post-employment health care for the year ended June 30, 2015; 1% was allocated to post-employment health care for the years ended June 30, 2014, and 2013. The 14% employer contribution rate is the maximum rate established under Ohio law.

The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $6,575, and $5,682, respectively. The School has contributed 100% for all years.

## NOTE 10 - 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 fiscal year 2015, the School contracted with Philadelphia Insurance Co. for insurance as follows:

| Insurance Type | Coverage | Deductible |
|---|---|---|
| Property Insurance | $ 115,000 | $ 2,500 |
| Business Interruption | 250,000 | - |
| Computer Equipment, Data, Software | 140,000 | 500 |
| Crime - Employee Theft, Dishonesty | 250,000 | 2,500 |
| General Liability | 1,000,000 per occurrence/2,000,000 aggregate | - |
| Personal and Advertising Injury | 1,000,000 per occurrence/2,000,000 aggregate | |
| Abuse/Molestation | 1,000,000 per occurrence/2,000,000 aggregate | - |
| Ohio Stop Gap Liability | 1,000,000 | - |
| Professional Liability | 1,000,000 per occurrence/2,000,000 aggregate | - |
| Auto - Hired and Non-Owned Auto | 1,000,000 | - |
| Directors and Officers | 2,000,000 per occurrence/4,000,000 aggregate | - |
| Employment Practices | 2,000,000 per occurrence/4,000,000 aggregate | - |
| Workplace Violence | 1,000,000 per occurrence/4,000,000 aggregate | - |
| Accident Medical Expense Benefits | 25,000 maximum | - |
| Umbrella Policy - Auto, General, Stop Gap, Professional Liability | 5,000,000 per occurrence/aggregate | - |

The amount of settlements did not exceed insurance coverage for any of the past three years. There has not been a significant reduction in coverage from the prior year.

### B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. Due to changes in the state premium system, no premium is owed for calendar year 2015 wages earned.

## NOTE 11 - EMPLOYEE BENEFITS

The School offers healthcare, dental, and vision insurance for all eligible employees. The School pays a portion of the monthly premium for healthcare, dental, and vision benefits, and the employee is responsible for the remainder. The School provides basic life and accidental death and dismemberment insurance to employees. Employees also have the option of paying for additional insurance benefits above the basic level. The School also provides short term disability benefits for eligible employees. Employees have the option of paying for long term disability benefits.

## NOTE 12 – COMPENSATED ABSENCES

The following is a summary of compensated absences for fiscal year 2015:

| | Balance at 6/30/2014 | Additions | Deletions | Balance at 6/30/2015 |
|---|---|---|---|---|
| Compensated Absences | $55,785 | $2,483 | ($21,824) | $36,444 |

## NOTE 13 - PURCHASED SERVICES

For fiscal year ended June 30, 2015, purchased services expenses were as follows:

| | |
|---|---|
| Rent | $ 360,000 |
| Management Services | 104,000 |
| Summer Services | 181,832 |
| Placement Contracts | 5,507,663 |
| Related Services | 134,985 |
| Sponsor Services | 40,334 |
| Audit Services | 4,572 |
| Attorney and Related Fees | 11,775 |
| Professional Memberships and Training | 1,299 |
| Professional Services - Medicaid in Schools Program | 2,396 |
| Benefits Management Services | 1,170 |
| Other (Advertising, Mail, etc.) | 1,667 |
| Insurance | 14,686 |
| Computer Consortium and EMIS Services | 13,146 |
| Total | $ 6,379,525 |

## NOTE 14 - CONTRACTS

### A. Sponsor Contract

The School entered into a three-year contract commencing on July 1, 2014 and continuing through June 30, 2017 with the Educational Service Center of Central Ohio (the “Sponsor”) for sponsorship services. The School pays the Sponsor $160 per full time equivalent per year for these services. Expenses for sponsor services amounted to $40,334 during fiscal year 2015.

### B. Service Contract

The School entered into Placement Contracts with CCDE to provide for educational services to certain students in order to assist the School in meeting the educational needs and to provide the necessary services of the students’ Individual Educational Plans. The required amount due to CCDE under the Placement Contracts was $5,507,663. The School paid $5,357,663 during fiscal year 2015. The financial statements include $150,000 in accounts payable for these services.

## NOTE 14 – CONTRACTS (continued)

### C. Management Contract

The School entered into an Administrative Management agreement with CCDE for Administrative Services for the period July 1, 2014 through June 30, 2015 in the amount of $104,000. CCDE provides services in the areas of human resources, staff training and support, secretarial, technology, including e-mail, administrative, data entry, and curriculum and program development. Payments to CCDE for Administrative Services amounted to $104,000 during fiscal year 2015.

## NOTE 15 - CONTINGENCIES

### A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2015.

### B. Ohio Department of Education Enrollment Review

As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this could result in either a receivable to or liability of the School.

## NOTE 16 - DEBT

The School had no long term debt outstanding at June 30, 2015. See Note 8 for discussion of net pension liability and Note 12 for compensated absences.

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**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

***Required Supplementary Information***
***Schedule of the School's Proportionate Share of the Net Pension Liability***
***School Employee's Retirement System of Ohio***
***Last Two Fiscal Years (1)***

| | 2014 | 2013 |
|---|---|---|
| School's Proportion of the Net Pension Liability | 0.015134% | 0.016517% |
| School's Proportionate Share of the Net Pension Liability | $765,923 | $982,213 |
| School's Covered-Employee Payroll | $466,767 | $347,658 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll | 164.09% | 282.52% |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 71.70% | 65.52% |

(1) Information prior to 2013 is not available

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

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

***Required Supplementary Information***
***Schedule of the School's Proportionate Share of the Net Pension Liability***
***State Teachers Retirement System of Ohio***
***Last Two Fiscal Years (1)***

| | 2014 | 2013 |
|---|---|---|
| School's Proportion of the Net Pension Liability | 0.00655615% | 0.00635014% |
| School's Proportionate Share of the Net Pension Liability | $1,594,683 | $1,839,886 |
| School's Covered-Employee Payroll | $721,384 | $571,190 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll | 221.06% | 322.11% |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 74.70% | 69.30% |

(1) Information prior to 2013 is not available

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

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

***Required Supplementary Information***
***Schedule of School Contributions***
***School Employee's Retirement System of Ohio***
***Last Ten Fiscal Years***

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually Required Contributions | $79,562 | $64,694 | $48,116 | $48,530 | $22,846 | $22,392 | $19,135 | $18,852 | $10,216 | $6,855 |
| Contributions in relation to the contractually required contribution | (79,562) | (64,694) | (48,116) | (48,530) | (22,846) | (22,392) | (19,135) | (18,852) | (10,216) | (6,855) |
| Contribution Deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| School Covered-Employee Payroll | $603,657 | $466,767 | $347,658 | $360,820 | $181,750 | $165,375 | $194,464 | $191,971 | $95,654 | $64,792 |
| Contribution as a Percentage of Covered Employee Payroll | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% | 10.68% | 10.58% |

**OAKSTONE COMMUNITY SCHOOL**
**FRANKLIN COUNTY, OHIO**

***Required Supplementary Information***
***Schedule of School Contributions***
***State Teachers Retirement System of Ohio***
***Last Ten Fiscal Years***

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually Required Contributions | $80,946 | $93,780 | $74,255 | $63,749 | $64,418 | $48,801 | $49,418 | $44,785 | $38,077 | $32,758 |
| Contributions in relation to the contractually required contribution | (80,946) | (93,780) | (74,255) | (63,749) | (64,418) | (48,801) | (49,418) | (44,785) | (38,077) | (32,758) |
| Contribution Deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| School Covered-Employee Payroll | $578,186 | $721,384 | $571,190 | $490,375 | $495,525 | $375,396 | $380,135 | $344,500 | $292,900 | $251,982 |
| Contribution as a Percentage of Covered Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

# 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***

Oakstone Community School
Franklin County
5747 Cleveland Ave
Columbus, Ohio 43231

To the Board of Trustees:

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 Oakstone Community School**,** Franklin County, Ohio (the School) as of and for the year ended June 30, 2015, 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 17, 2016, wherein we noted the School adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

***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.

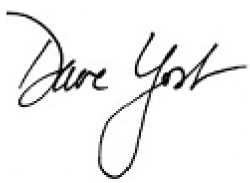
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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



**Dave Yost**
Auditor of State
Columbus, Ohio

February 17, 2016

**OAKSTONE COMMUNITY SCHOOL**

**FRANKLIN 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 17, 2016**

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