

***CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016





Dave Yost • Auditor of State

Board of Directors
Cincinnati Learning Schools
5641 Belmont Avenue
Cincinnati, Ohio 45224

We have reviewed the *Independent Auditor's Report* of the Cincinnati Learning Schools, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cincinnati Learning Schools is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 8, 2017

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**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY
AUDIT REPORT
For the Year Ending June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Cincinnati Learning Schools
Hamilton County
5641 Belmont Avenue
Cincinnati, Ohio 45224

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Cincinnati Learning Schools, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2016, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati Learning Schools, Hamilton County, Ohio as of June 30, 2016 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.

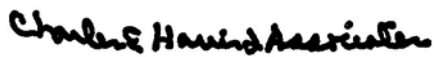
Other Matters

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, 2017 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.



Charles E. Harris & Associates, Inc.
February 17, 2017

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The management's discussion and analysis of the Cincinnati Learning Schools' (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. 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 the period ended June 30, 2016 are as follows:

- In total, net position was (\$1,646,162) at June 30, 2016. If deferred outflows of resources, the net pension liability and deferred inflows of resources related to Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 were excluded, the net position of the School would be (\$167,830) at June 30, 2016.
- The School had operating revenues of \$2,272,858, operating expenses of \$2,434,517, non-operating revenues of \$365,825 and non-operating expenses of \$31,900 for the fiscal year ended June 30, 2016. Total change in net position for the period ended June 30, 2016 was an increase of \$172,266. If the expenses related to GASB Statements No. 68 and 71 were excluded, the operating expenses of the School would have been \$2,431,141 for the fiscal year ended June 30, 2016.

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 2016?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and changes in that 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 notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12-29 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's net pension liability. The required supplementary information can be found on pages 31-35 of this report.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The table below provides a summary of the School's net position at June 30, 2016 and 2015. Comparative information at June 30, 2016 and 2015 has been included to illustrate the effects on the School had it not been required to implement GASB Statements No. 68 and 71. The net position at June 30, 2015 has been restated as described in Note 3.B.

	Net Position			
	Under GASB Statement 68/71		Without GASB Statement 68/71	
	2016	Restated 2015	2016	Restated 2015
<u>Assets</u>				
Current assets	\$ 393,686	\$ 506,546	\$ 393,686	\$ 506,546
Capital assets, net	318,940	432,066	318,940	432,066
Total assets	712,626	938,612	712,626	938,612
<u>Deferred Outflows of Resources</u>	509,733	114,870	-	-
<u>Liabilities</u>				
Current liabilities	551,885	560,431	551,885	560,431
Non-current liabilities	2,230,528	2,065,235	328,571	721,653
Total liabilities	2,782,413	2,625,666	880,456	1,282,084
<u>Deferred Inflows of Resources</u>	86,108	246,244	-	-
<u>Net Position</u>				
Investment in capital assets	318,940	432,066	318,940	432,066
Unrestricted (deficit)	(1,965,102)	(2,250,494)	(486,770)	(775,538)
Total net position	\$ (1,646,162)	\$ (1,818,428)	\$ (167,830)	\$ (343,472)

During a prior fiscal year, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68" 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.

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

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

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 government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of 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.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the School's net position totaled (\$1,646,162). If deferred outflows of resources, the net pension liability and deferred inflows of resources related to GASB Statements No. 68 and 71 were excluded, the net position of the School would be (\$167,830) at June 30, 2016.

At year-end, capital assets represented 44.76% of total assets. Capital assets consisted of equipment. Investment in capital assets at June 30, 2016, was \$318,940. These capital assets are used to provide services to the students and are not available for future spending. Although the School's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The table below shows the changes in net position for the fiscal years 2016 and 2015. Comparative information for fiscal year 2016 has been included to illustrate the effects on the School had it not been required to implement GASB Statements No. 68 and 71. The net position at June 30, 2015 has been restated as described in Note 3.B.

Change in Net Position

	Under GASB Statement No. 68/71		Without GASB Statement No. 68/71	
	2016	2015	2016	2015
<u>Operating revenues:</u>				
State foundation	\$ 1,570,692	\$ 1,579,890	\$ 1,570,692	\$ 1,579,890
Sponsor local contributions	690,886	658,342	690,886	658,342
Charges for services	10,854	2,695	10,854	2,695
Other	426	465	426	465
Total operating revenues	2,272,858	2,241,392	2,272,858	2,241,392
<u>Operating expenses:</u>				
Salaries	985,879	828,583	985,879	828,583
Fringe benefits	240,729	122,060	237,353	169,987
Purchased services	910,159	1,083,411	910,159	1,083,411
Materials and supplies	136,424	158,316	136,424	158,316
Depreciation	118,660	117,922	118,660	117,922
Other operating expenses	42,666	115,875	42,666	115,875
Total operating expenses	2,434,517	2,426,167	2,431,141	2,474,094
<u>Non-operating revenues (expenses):</u>				
Intermediate, state and federal grants	365,420	287,943	365,420	287,943
Contributions and donations	405	-	405	-
Interest and fiscal charges	(31,900)	-	(31,900)	-
Total non-operating revenues (expenses)	333,925	287,943	333,925	287,943
Change in net position	172,266	103,168	175,642	55,241
Net position at beginning of the year (restated)	(1,818,428)	(1,921,596)	(343,472)	(398,713)
Net position at end of the year	\$ (1,646,162)	\$ (1,818,428)	\$ (167,830)	\$ (343,472)

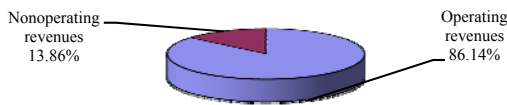
**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

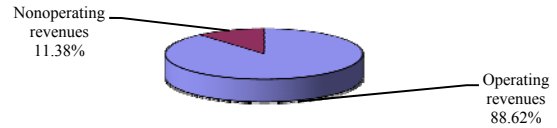
Operating revenues totaled \$2,272,858 during fiscal year 2016. Operating revenues consist primarily of state foundation revenue of \$1,570,692 which was based on Full Time Equivalent (FTE) of 211 students during fiscal year 2016 and contributions from Cincinnati City School District (the "Sponsor"). Foundation revenue decreased \$9,198 due to a decrease in about 3 students from fiscal year 2016. Operating expenses totaled \$2,434,517. If the expenses related to GASB Statements No. 68 and 71 were excluded, the operating expenses of the School would have been \$2,431,141 for the fiscal year ended June 30, 2016. The main operating expenses of the School consist of purchased services such as professional and technical services and property services such as rent paid for the School's building and expenses related to salaries and benefits for its employees. The increase of \$8,350 related primarily to an increase in salaries and benefits for teaching staff. Non-operating revenues of the School consist of state and federal grant money received from the USDA Nutrition Program, Title I grant and Title VI-B grant. Non-operating revenues increased due to an increase in Title I funding from the previous fiscal year.

The graphs below illustrate the revenues and expenses for the School during the fiscal year 2016 and 2015.

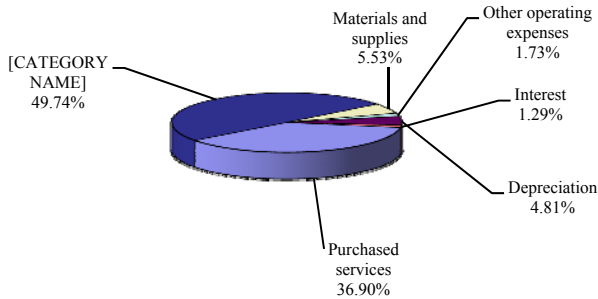
2016 Revenues



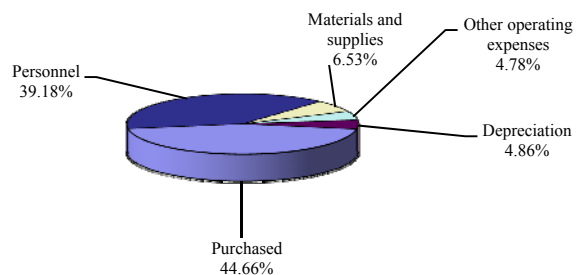
2015 Revenues



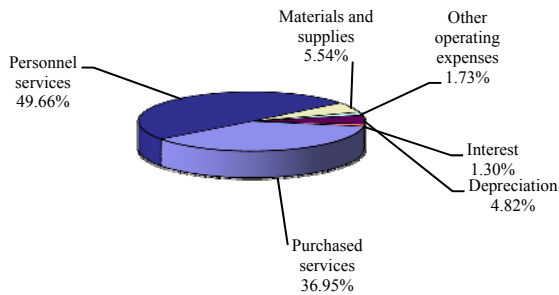
2016 Expenses (under GASB 68/71)



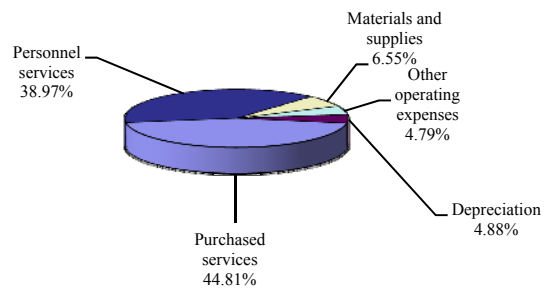
2015 Expenses (under GASB 68/71)



2016 Expenses (without GASB 68/71)



2015 Expenses (without GASB 68/71)



**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Capital Assets

At June 30, 2016, the School had \$318,940 invested in equipment. See Note 7 to the basic financial statements for more detail on capital assets.

Debt Administration

At June 30, 2016, the School had \$721,230 in notes payable outstanding. Of this total, \$392,659 is due in one year and \$328,571 is due in more than one year. See Notes 6 to the basic financial statements for more detail on debt.

Current Financial Related Activities

The School is sponsored by Cincinnati City School District. The School is reliant upon State Foundation monies and State 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 Ms. Tracy Jarvis, Treasurer, Cincinnati Learning Schools 5641 Belmont Avenue, Cincinnati, Ohio, 45224.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 292,910
Receivables:	
Intergovernmental	26,203
Prepayments	<u>74,573</u>
Total current assets	<u>393,686</u>
Non-current assets:	
Depreciable capital assets, net	<u>318,940</u>
Total non-current assets.	<u>318,940</u>
Total assets.	<u>712,626</u>
 Deferred outflows of resources:	
Pension - STRS	474,667
Pension - SERS	<u>35,066</u>
Total deferred outflows of resources	<u>509,733</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	16,850
Compensated absences.	139,546
Intergovernmental payable.	2,830
Notes payable.	<u>392,659</u>
Total current liabilities	<u>551,885</u>
Non-current liabilities:	
Net pension liability.	1,901,957
Notes payable.	<u>328,571</u>
Total non-current liabilities	<u>2,230,528</u>
Total liabilities	<u>2,782,413</u>
 Deferred inflows of resources:	
Pension - STRS	83,066
Pension - SERS	<u>3,042</u>
Total deferred inflows of resources	<u>86,108</u>
 Net position:	
Investment in capital assets.	318,940
Unrestricted (deficit)	<u>(1,965,102)</u>
Total net position	<u>\$ (1,646,162)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating revenues:	
Foundation payments	\$ 1,570,692
Sponsor local contributions	690,886
Sales/charges for services.	10,854
Other operating revenues	426
Total operating revenues	<u>2,272,858</u>
 Operating expenses:	
Salaries.	985,879
Fringe benefits.	240,729
Purchased services.	910,159
Materials and supplies	136,424
Depreciation	118,660
Other operating expenses.	42,666
Total operating expenses.	<u>2,434,517</u>
 Operating loss	 <u>(161,659)</u>
 Non-operating revenues (expenses):	
Intermediate, State and federal grants	365,420
Contributions and donations	405
Interest and fiscal charges	(31,900)
Total non-operating revenues (expenses)	<u>333,925</u>
 Change in net position	 172,266
 Net position at beginning of the year (restated)	 <u>(1,818,428)</u>
Net position at end of the year.	<u><u>\$ (1,646,162)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	\$ 1,553,103
Cash received from Sponsor for operations	690,886
Cash received from sales/charges for services.	10,854
Cash received from other operating revenues	426
Cash payments for personal services	(902,733)
Cash payments for fringe benefits	(257,820)
Cash payments for contract services	(990,836)
Cash payments for materials and supplies	(136,379)
Cash payments for other expenses	(42,216)
	(74,715)
Net cash used in operating activities	(74,715)
Cash flows from noncapital financing activities:	
Cash received from intermediate, state and federal grants	395,946
Cash payments for principal of noncapital notes	(346,957)
Cash received from contributions and donations	405
Cash payments for interest of noncapital notes	(31,900)
	17,494
Net cash provided by noncapital financing activities.	17,494
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(5,534)
Net cash used in capital and related financing activities.	(5,534)
Net decrease in cash and cash cash equivalents	(62,755)
Cash and cash equivalents at beginning of the year .	355,665
Cash and cash equivalents at end of the year	\$ 292,910
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (161,659)
Adjustments:	
Depreciation	118,660
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Intergovernmental receivable	107
Prepayments	19,472
Deferred outflows - pension - STRS	(369,422)
Deferred outflows - pension - SERS	(25,441)
Accounts payable.	(117,471)
Compensated absences payable	83,146
Intergovernmental payable	(20,346)
Net pension liability	558,375
Deferred inflows - pension - STRS	(146,561)
Deferred inflows - pension - STRS	(13,575)
	(13,575)
Net cash used in operating activities	\$ (74,715)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE SCHOOL

Cincinnati Learning Schools (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, located in Aiken High School in the Cincinnati City School District, sets out to tailor a high-quality education to a complete spectrum of students from all backgrounds and all abilities. The School meets each student at their current level and then builds competency and confidence through hard work and encouragement. High School students at the School are provided with an opportunity to earn college credits through digital coursework that prepares them to take College Level Examination Program (CLEP) exams. Fiscal year 2014 represented the first year of operation of the School as an independent charter school. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under contract with the Cincinnati City School District (the "Sponsor") for a period of five years commencing July 1, 2013 and ending June 30, 2018. The Sponsor is responsible for evaluating the School's performance 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 a self-appointing five member Governing Board (the "Board"). The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School is staffed by 13 certified teaching personnel, 3 non-certified employees and 7 administrators who provides services to 212 full time equivalent (FTE) students.

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 nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the School's 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.

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, all deferred outflows of resources, all liabilities and all deferred inflows of resources are included on the statement of net position. Equity consists of net total position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

C. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, See Note 12 for deferred outflows of resources related the Schools's net pension liability.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, See Note 12 for deferred inflows of resources related to the School's net pension liability.

D. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the school's contract with its sponsor. The contract between the School and its Sponsor requires a detailed School budget for each year of the contract; however, the budget does not have to follow Ohio Revised Code Section 5705.

The School's Board adopts a formal budget at the beginning of the School year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Business Manager are responsible for ensuring that purchases are made within these limits.

E. Cash and Investments

All cash the School receives is maintained at a central bank. For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2016, cash the School received was maintained in a demand deposit account.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their acquisition value as of the date received. The School maintains a capitalization threshold of \$5,000. 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 the asset's life are expensed.

Depreciation of equipment is computed using the straight-line method over estimated useful lives of three to ten years.

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. For the School, these revenues are payments from the State foundation program and tuition and fees. 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.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program through the Ohio Department of Education, the United States Department of Agriculture (USDA) Nutrition Program, the Title I grant, the Title II-A grant and the Title VI-B grant. The School also receives pass through tax money received from the Cincinnati City School District for operating expenses. Revenues received from the State Foundation Program and Cincinnati City School District are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Intermediate, state and federal grant revenue for the fiscal year 2016 was \$365,420.

H. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

I. Estimates

The preparation of basic 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.

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' 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. Employees of the School carry over vacation balances from one year to the next. The total liability reported on the statement of net position for compensated absences payable is \$139,546.

L. Pensions

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

M. Tax Exempt Status

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

N. Economic Dependency

The School receives nearly 69% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

NOTE 3 - CHANGES IN ACCOUNTING POLICIES/RESTATEMENT OF NET POSITION

A. Changes in Accounting Policies

For fiscal year 2016, the School has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - CHANGES IN ACCOUNTING POLICIES/RESTATEMENT OF NET POSITION - (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

B. Restatement of Net Position

A net position restatement is required in order to account for compensated absences liability balances that were not reported at June 30, 2015. The net position at July 1, 2015 has been restated as follows:

Net position as previously reported	\$ (1,762,028)
Errors and omissions previously reported	<u>(56,400)</u>
Restated net position at July 1, 2015	<u>\$ (1,818,428)</u>

NOTE 4 - DEPOSITS

Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all School deposits was \$292,910. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$60,216 of the School's bank balance of \$310,216 was subject to custodial credit risk as described below while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts receivable and intergovernmental grants and entitlements. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net position follows:

Intergovernmental receivable:	
Title VI-B	\$ 8,664
Title I	17,196
ODE	<u>343</u>
Total	<u>\$ 26,203</u>

NOTE 6 - LONG-TERM OBLIGATIONS

Changes in the School's long-term obligations during fiscal year 2016 were as follows. The beginning long-term obligations have been restated as described in Note 3.B.

	Balance <u>6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/16</u>	Due Within <u>One Year</u>
Notes payable	\$ 1,068,187	\$ -	\$ (346,957)	\$ 721,230	\$ 392,659
Net pension liability	1,343,582	558,375	-	1,901,957	-
Compensated absences	<u>56,400</u>	<u>83,146</u>	<u>-</u>	<u>139,546</u>	<u>139,546</u>
Total long-term liabilities	<u>\$ 2,468,169</u>	<u>\$ 641,521</u>	<u>\$ (346,957)</u>	<u>\$ 2,762,733</u>	<u>\$ 532,205</u>

Notes Payable: On October 4, 2013, the School entered into a promissory note with First Financial Bank to borrow a total of \$1,170,000 for school start-up costs. The note carries an interest rate of 3.75% and has a final maturity date of April 1, 2018.

The following is a summary of the future debt service requirements to maturity for the notes payable:

Fiscal Year Ending <u>June 30,</u>	<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 392,659	\$ 20,640	\$ 413,299
2018	<u>328,571</u>	<u>5,624</u>	<u>334,195</u>
Total	<u>\$ 721,230</u>	<u>\$ 26,264</u>	<u>\$ 747,494</u>

Net pension liability: See Note 12 for details.

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

A summary of the School's capital assets at June 30, 2016, follows:

	Balance <u>6/30/15</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/16</u>
<i>Capital assets, being depreciated</i>				
Equipment	\$ 652,262	\$ 5,534	\$ -	\$ 657,796
<i>Total capital assets, being depreciated</i>	<u>652,262</u>	<u>5,534</u>	<u>-</u>	<u>657,796</u>
<i>Less: Accumulated Depreciation</i>				
Equipment	<u>(220,196)</u>	<u>(118,660)</u>	<u>-</u>	<u>(338,856)</u>
<i>Total accumulated depreciation</i>	<u>(220,196)</u>	<u>(118,660)</u>	<u>-</u>	<u>(338,856)</u>
<i>Net Capital Assets</i>	<u>\$ 432,066</u>	<u>\$ (113,126)</u>	<u>\$ -</u>	<u>\$ 318,940</u>

NOTE 8 - PURCHASED SERVICES

Purchased services include the following:

Professional and technical services	\$ 469,210
Property services	248,046
Travel mileage/meeting expense	3,939
Communications	92,062
Utilities	30,000
Contracted craft or trade	66,096
Pupil transportation	<u>2,374</u>
Total purchased services	<u>\$ 911,727</u>

NOTE 9 - OPERATING LEASES

The School entered into a lease for fiscal year 2016 with Cincinnati City School District to lease space in Aiken High School located at 5641 Belmont Avenue, Cincinnati, Ohio 45224. The cost of the lease for the fiscal year 2016 was \$196,000 payable in twelve monthly payments.

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2016, the School contracted with Great American Insurance Group for general, automobile and excess/umbrella liability insurance. Below are the various coverages for the School:

Personal Property	\$190,000	\$1,000 deductible
Blanket Limit of Insurance:		
Each Occurrence	\$250,000	
Aggregate	\$250,000	
General Liability		
General Aggregate Limit	\$2,000,000	
Products	\$2,000,000	
Personal and Advertising Injury Limit	\$1,000,000	
Each Occurrence Limit	\$1,000,000	
Employee Benefits		
Aggregate Limit	\$2,000,000	\$1,000 deductible
Each Claim Limit	\$1,000,000	
Ohio Stop Gap Employers' Liability	\$1,000,000	
Abuse or Molestation Coverage	\$1,000,000	
Crime and Fidelity	\$25,000	\$1,000 deductible
Business Auto Coverage	\$1,000,000	
Equipment Breakdown Coverage	\$442,500	\$1,000 deductible

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 the State calculates.

NOTE 11 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, Life and Vision Benefits

The School has contracted with Northern Buckeye Health Plan for medical, dental and vision benefits and MetLife for life insurance benefits to its employees.

NOTE 12 - 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

Plan Description –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 after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$26,065 for fiscal year 2016. Of this amount, \$368 is reported as intergovernmental payable.

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.

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. 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, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$93,782 for fiscal year 2016.

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, 2015, 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	\$ 125,894	\$ 1,776,063	\$ 1,901,957
Proportion of the net pension liability	0.00220630%	0.00642638%	
Pension expense	\$ 10,560	\$ 112,663	\$ 123,223

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2016, 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 between expected and actual experience	\$ 1,970	\$ 78,642	\$ 80,612
Change in the employer's proportion percentage / difference between the employer's contributions and the employer's proportional share of contributions	7,031	302,243	309,274
School contributions subsequent to the measurement date	26,065	93,782	119,847
Total deferred outflows of resources	\$ 35,066	\$ 474,667	\$ 509,733
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 3,042	\$ 83,066	\$ 86,108
Total deferred inflows of resources	\$ 3,042	\$ 83,066	\$ 86,108

\$119,847 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, 2017. 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:			
2017	\$ 1,086	\$ 60,850	\$ 61,936
2018	1,086	60,850	61,936
2019	1,084	60,852	61,936
2020	2,703	115,267	117,970
Total	\$ 5,959	\$ 297,819	\$ 303,778

Actuarial Assumptions - SERS

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

**CINCINNATI LEARNING SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (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.

Change Between Measurement Date and Report Date – In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

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	\$ 174,569	\$ 125,894	\$ 84,905

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, 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, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

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 <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School's proportionate share of the net pension liability	\$ 2,467,086	\$ 1,776,063	\$ 1,191,701

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School's surcharge obligation was \$386.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$386, \$545, and \$79, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

Plan Description – The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$5,286, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 14 - CONTINGENCIES

A. Grants

The School received financial assistance from State agencies in the form of grants. The expense 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, 2016.

B. Litigation

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

C. State Foundation Funding

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, community schools must comply with minimum hours of instruction, instead of minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School, which can extend past the fiscal year end. As a result of the reviews of fiscal years 2015 and 2016, the School owes \$2,076 to the Ohio Department of Education and is due \$343 from the Ohio Department of Education. These amount have been reported as an Intergovernmental Payable and an Intergovernmental Receivable, respectively, on the Statement of Net Position.

NOTE 15 - SERVICE AGREEMENTS

A. Cincinnati City School District

The School entered into a five-year contract effective on July 1, 2013 and continuing through June 30, 2018 with the Cincinnati City School District (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with applicable laws to the School and with the terms of the Sponsorship Agreement;
- Monitor and evaluate the academic and fiscal performance and the organization and operation of the School on at least an annual basis during the term of the Sponsorship Agreement;
- Report, on an annual basis and by November 30 of each year, the results of the evaluation conducted under the above review (Section 3314.03(D)(2) of the ORC) to the Department of Education and to the parents of students enrolled in the School;
- Provide technical assistance to the School in complying with laws applicable to the School and terms of the Sponsorship Agreement;

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 15 - SERVICE AGREEMENTS - (Continued)

- Take steps to intervene in the School's operation, to the extent reasonable and within available resources to correct problems in the Schools overall performance, declare the School to be on probationary status pursuant to Section 3314.073 of the ORC, suspend the operation of the School pursuant to Section 3314.072 of the ORC, or terminate the Sponsorship Agreement of the School pursuant to Section 3314.07 of the ORC as determined necessary by the Sponsor; and,
- Have in place a plan of action to be undertaken in the event the School experiences financial difficulties or closes prior to the end of a school year.

During fiscal year 2016, the School made \$226,000 in payments to the Sponsor for rent and utilities.

The Sponsor also agrees to pay an amount to the School for operating expenditures per pupil which equates to 82% of the operating expenditures per pupil. This amount is calculated by taking the total amount of applicable State payments and other nonfederal revenue spent by the School for operating expenses during the previous fiscal year and dividing by the School's average daily membership. During fiscal year 2016, the Sponsor paid the School \$690,886.

B. Charter School Management Corporation

The School entered into a contract with Charter School Management Corporation (CSMC). CSMC will provide services including:

- Complete external, student reporting including attendance and state reporting school support
- Student Information System (SIS) PowerSchool Premier software roll out, training and support

During fiscal year 2016, the School made \$20,982 in payments to the CSMC.

C. Carpe Diem Learning Systems

The School entered into a contract with Carpe Diem Learning Systems (CDLS) for management services of the School.

During the period July 1, 2015 through June 30, 2016, the School made \$317,676 in payments to CDLS.

NOTE 16 – SUBSEQUENT EVENT

The School refinanced the remaining balance of its note with First Financial Bank on November 3, 2016 for \$559,482. The note carries an interest rate of 3.75% for sixty payments of \$10,254 through September 2021.

REQUIRED SUPPLEMENTARY INFORMATION

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability	0.00220630%	0.00202300%	0.00202300%
School's proportionate share of the net pension liability	\$ 125,894	\$ 102,383	\$ 120,301
School's covered-employee payroll	\$ 66,419	\$ 58,795	n/a
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.55%	174.14%	n/a
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable. The School's covered-employee payroll for fiscal year 2013 was unavailable as the School's first year of operations was fiscal year 2014.

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

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability	0.00642638%	0.00510289%	0.00510289%
School's proportionate share of the net pension liability	\$ 1,776,063	\$ 1,241,199	\$ 1,478,509
School's covered-employee payroll	\$ 666,400	\$ 521,369	n/a
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	266.52%	238.07%	n/a
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable. The School's covered-employee payroll for fiscal year 2013 was unavailable as the School's first year of operations was fiscal year 2014.

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

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 26,065	\$ 8,754	\$ 8,149
Contributions in relation to the contractually required contribution	<u>(26,065)</u>	<u>(8,754)</u>	<u>(8,149)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 186,179	\$ 66,419	\$ 58,795
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%

Note: Information prior to fiscal year 2014 was unavailable as that was the School's first year of operations.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 93,782	\$ 93,296	\$ 67,778
Contributions in relation to the contractually required contribution	<u>(93,782)</u>	<u>(93,296)</u>	<u>(67,778)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 669,871	\$ 666,400	\$ 521,369
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%

Note: Information prior to fiscal year 2014 was unavailable as that was the School's first year of operations.

**CINCINNATI LEARNING SCHOOLS
HAMILTON COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Cincinnati Learning Schools
Hamilton County
5641 Belmont Avenue
Cincinnati, Ohio 45224

To the Board of Directors:

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 Cincinnati Learning Schools, Hamilton County, Ohio, (the School) as of and for the year ended June 30, 2016, 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, 2017.

Internal Controls 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, 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 over financial reporting, that we consider a 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.



Charles E. Harris & Associates, Inc.
February 17, 2017

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ended June 30, 2015, reported no material citations or recommendations.

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Dave Yost • Auditor of State

CINCINNATI LEARNING SCHOOLS

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 18, 2017**