TOLEDO SMART ELEMENTARY
LUCAS COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

TOLEDO SMART ELEMENTARY
LUCAS COUNTY
JUNE 30, 2017

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Toledo SMART Elementary
Lucas County
1850 Airport Highway
Toledo, Ohio 43609

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Toledo SMART Elementary, Lucas County, Ohio (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Toledo SMART Elementary, Lucas County, Ohio, as of June 30, 2017, 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 16 to the financial statements, the School has suffered recurring losses from operations and has a net deficiency. Note 16 also describes management's evaluation of the events and conditions and their plans to mitigate this matter. Our opinion is unmodified 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 June 12, 2018, 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

June 12, 2018

As management of Toledo SMART Elementary School (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- The liabilities of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $437,602 (negative net position) compared to $330,352 (negative net position) in fiscal year 2016.

- At fiscal year-end, the School's total assets and deferred outflows of resources were $1,108,910 and total liabilities were $1,546,512.

- The School had an operating loss of $476,180 in fiscal year 2017 compared to $316,436 in fiscal year 2016.

Using this Annual Financial Report

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

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

The statement of revenues, expenses and changes in net position reports the changes in net position. The change in net position is important because it tells the reader whether the financial position of the School has improved or diminished; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information. 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.

Financial Analysis

Table 1 provides a summary of the School's net position at June 30, 2017 and June 30, 2016.

Table 1
Net Position at Year End

	2017	2016
Assets:		
Current and Other Assets	$ 71,104	$ 90,968
Capital Assets, Net	122,902	143,931
Total Assets	194,006	234,899
Deferred Outflows of Resources	914,904	354,631
Liabilities:		
Current Liabilities	377,090	223,532
Noncurrent Liabilities	1,169,422	696,350
Total Liabilities	1,546,512	919,882
Net Position:		
Net Investment in Capital Assets	63,170	46,793
Restricted	30,474	9,763
Unrestricted (Deficit)	(531,246)	(386,908)
Total Net Position (Deficit)	$ (437,602)	$ (330,352)

Current and Other Assets decreased significantly in comparison with the prior fiscal year-end. This decrease is primarily the result of a decrease in intergovernmental receivable. The decrease in intergovernmental receivable is the result of a foundation funding underpayment in fiscal year 2016.

Capital Assets decreased significantly in comparison with the prior fiscal year-end. This decrease represents the amount in which current year acquisitions is less than current year depreciation expense.

Current Liabilities increased significantly over those reported one year ago. This increase is primarily the result of an increase in notes payable due within one year.

Deferred Outflows of Resources and Net Pension Liability (the most significant component of Noncurrent Liabilities) both increased significantly in comparison with the prior fiscal year-end. These increases are primarily the result of a change in actuarial assumptions and the difference between expected and actual investment returns, as reported by the pension systems, as well as an increase in the School's proportionate share.

Financial Analysis

Table 2 shows the change in net position for the fiscal year ended June 30, 2017 and June 30, 2016.

Table 2
Changes in Net Position

	2017	2016
Operating Revenues:		
Foundation Revenues	$ 1,133,193	$ 695,567
Other Unrestricted Grants in Aid	35,080	3,119
Total Operating Revenues	1,168,273	698,686
Operating Expenses:		
Salaries and Wages	571,415	412,451
Fringe Benefits	367,795	151,958
Purchased Services	613,544	382,260
Materials and Suppilies	50,619	32,507
Depreciation	25,223	18,782
Other	15,857	17,164
Total Operating Expenses	1,644,453	1,015,122
Operating Loss	(476,180)	(316,436)
Nonoperating Revenues (Expenses)		
Federal and State Grants	181,497	136,934
Other Restricted Grants in Aid	186,690	15,361
Contributions and Donations	6,134	7,543
Interest Expense	(5,391)	(3,205)
Total Nonoperating Revenues (Expenses)	368,930	156,633
Change in Net Position	(107,250)	(159,803)
Net Position, Beginning of Year (Deficit)	(330,352)	(170,549)
Net Position, End of the Year (Deficit)	$ (437,602)	$ (330,352)

All revenues and expenses increased significantly in comparison with the prior fiscal year. These increases are the result of an increase in enrollment from 83 students in fiscal year 2016 to 147 students in fiscal year 2017.

Capital Assets

At fiscal year-end, the School had $122,902 invested in capital assets, a decrease of $21,029 in comparison with the prior fiscal year-end. This decrease represents the amount in which current year depreciation of $25,223 exceeded current year capital acquisitions of $4,194. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's notes payable balance was $269,232, a decrease of $87,406 in comparison with the prior fiscal year-end. This decrease represents the principal payments totaling $87,406. For more information on debt, see Note 6 to the basic financial statements.

Current Financial Issues

The School is dependent upon legislative and governmental support to fund ongoing operations. The School is expected to grow in both the number of students and support staff as it enters its fourth year of operation, which will impact the School's funding since the School receives a majority of its financial support from per student state foundation payments.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Toledo SMART Elementary School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Toledo SMART Elementary School, 1850 Airport Highway, Toledo OH 43609.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Assets:		
Current Assets		
Cash and Cash Equivalents	$	38,643
Intergovernmental Receivable		18,474
Prepaid Items		5,987
Security Deposit		8,000
Total Current Assets		71,104
Noncurrent Assets		
Capital Assets, Net		122,902
Total Assets		194,006
Deferred Outflows of Resources:		
Pension		914,904
Liabilities:		
Current Liabilities		
Accounts Payable		25,295
Accrued Wages and Benefits Payable		64,796
Intergovernmental Payable		38,016
Notes Payable (Current Portion)		248,983
Total Current Liabilities		377,090
Long-Term Liabilities:		
Notes Payable		20,249
Net Pension Liability		1,149,173
Total Long-Term Liabilities		1,169,422
Total Liabilities		1,546,512
Net Position:		
Net Investment in Capital Assets		63,170
Restricted		30,474
Unrestricted (Deficit)		(531,246)
Total Net Position (Deficit)	$	(437,602)

See accompanying notes to the basic financial statements.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Foundation Revenue	$ 1,133,193
Other Unrestricted Grants in Aid	35,080
Total Operating Revenues	1,168,273
Operating Expenses:	
Salaries	571,415
Fringe Benefits	367,795
Purchased Services	613,544
Materials and Supplies	50,619
Depreciation	25,223
Other	15,857
Total Operating Expenses	1,644,453
Operating Loss	(476,180)
Non-Operating Revenues (Expenses):	
Federal and State Grants	181,497
Other Restricted Grants in Aid	186,690
Contributions and Donations	6,134
Interest Expense	(5,391)
Total Non-Operating Revenues (Expenses)	368,930
Change in Net Position	(107,250)
Net Position Beginning of Year (Deficit)	(330,352)
Net Position End of Year (Deficit)	$ (437,602)

See accompanying notes to the basic financial statements.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities:	
Received from Foundation Payments	$ 1,171,937
Received from Disadvantaged Pupil Impact Aid	35,080
Payments to Suppliers for Goods and Services	(765,571)
Payments to Employees for Services and Benefits	(701,525)
Payments to Other	(17,307)
Net Cash Used for Operating Activities	(277,386)
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	374,858
Received from Contributions and Donations	6,134
Net Cash Provided by Noncapital Financing Activities	380,992
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(4,194)
Principal Paid on Loan	(87,406)
Interest Paid on Loan	(5,391)
Net Cash Used for Capital and Related Financing Activities	(96,991)
Net Increase in Cash and Cash Equivalents	6,615
Cash and Cash Equivalents at Beginning of Year	32,028
Cash and Cash Equivalents at End of Year	$ 38,643

See accompanying notes to the basic financial statements.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(476,180)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		25,223
Changes in Assets and Liabilities:		
Intergovernmental Receivable		21,608
Prepaid Items		(1,800)
Accounts Payable		(101,058)
Accrued Wages and Benefits Payable		18,369
Intergovernmental Payable		24,670
Net Pension Liability		211,782
Net Cash Used for Operating Activities	$	(277,386)

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Toledo Smart Elementary School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through fourth. The School, which is part of the State's education program, is independent of any school district and in 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 qualifies as an exempt organization under Section 501c (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 Buckeye Community Hope Foundation is the School's sponsor. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 12).

The School operates under the direction of a six-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 7 non-certified and 13 certificated full time teaching personnel who provide services to 147 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (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

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. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded 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 part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Expenses are recognized at the time they are incurred.

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 Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does require a five-year forecast which is to be updated biannually.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess 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.

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

Land Improvements	10 years
Building and Improvements	25 years
Leasehold Improvements	Remaining Term of Lease (NTE 5 years)
Furniture and Equipment	5 years
Technology Equipment	3 years
Vehicles	7 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

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

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year which services are consumed.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement 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(s) 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 pensions. These deferred outflows of resources related to pensions are explained in Note 8.

In addition to liabilities, the statement of financial position may contain a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The School did not have any deferred inflows of resources at fiscal year-end.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of fiscal year-end, including:

> Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2017.
>
> Wages and Benefits Payable – salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2017 contract.
>
> Intergovernmental Payable – payments made after year-end for the Schools' share of retirement contributions and Medicare associated with services rendered during the fiscal year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Intergovernmental Revenues

The School is a participant in the State Foundation Program. In addition, the State distributes among all public schools, a percentage of proceeds received from the tax on gross casino revenue, to be used to support primary and secondary education. Foundation funding and casino revenues are both recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

K. 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.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net 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 improvements of those assets. The School applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position is available.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation and related payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

N. Estimates

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

NOTE 3 – DEPOSITS

At June 30, 2017, the carrying amount of the School's deposits was $38,643 and the bank balance was $55,916. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

Intergovernmental receivables at June 30, 2017 consisted of federal grants receivable, totaling $2,864, a pension overpayment of $965, and federal food service subsidies of $14,645. All receivables are considered collectible in full.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 11,337	$ 4,194	$ -	$ 15,531
Vehicles	157,756	-	-	157,756
Total Capital Assets	169,093	4,194	-	173,287
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(2,640)	(2,687)	-	(5,327)
Vehicles	(22,522)	(22,536)	-	(45,058)
Total Accumulated Depreciation	(25,162)	(25,223)	-	(50,385)
Capital Assets, Net	$ 143,931	$ (21,029)	$ -	$ 122,902

NOTE 6 – LONG TERM OBLIGATIONS

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Mangen Notes	$ 259,500	$ -	$ (50,000)	$ 209,500	$ 209,500
Bus Loan FY15	39,530	-	(19,231)	20,299	20,299
Bus Loan FY16	57,608	-	(18,175)	39,433	19,184
Total	$ 356,638	$ -	$ (87,406)	$ 269,232	$ 248,983

In March 2015, the School entered into a promissory note with Mangen Family Foundation for operation and administrative activities. The note carried an interest rate of 0% and a maturity date of January 1, 2018.

In August 2015, the School entered into a promissory note with Mangen Family Foundation for operation and administrative activities, replacing the March 2015 note. This note carries an interest rate of 0% and a maturity date of June 30, 2018.

NOTE 6 – LONG TERM OBLIGATIONS (continued)

On June 25, 2015, the School borrowed $79,175 to finance the purchase of a school bus. The note carried an interest rate of 5.55% and a maturity date of June 25, 2018.

In September 2015, the School borrowed $78,981 to finance the purchase of a school bus. The note carried an interest rate of 5.55% and a maturity date of September 8, 2018.

Debt-service-to-maturity requirements to retire the notes are as follows:

June 30	Principle	Interest	Total
2018	$ 248,983	$ 3,314	$ 252,297
2019	20,249	1,123	21,372
Total	$ 269,232	$ 4,437	$ 273,669

NOTE 7 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the School contracted with Accord Insurance Company for general liability, property insurance, educational errors and omissions insurance.

Coverages are as follows:

Building Contents ($1,000 deductible)	$ 300,000
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in any of the past two years. There was no significant reduction in coverage from the prior fiscal year.

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

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). 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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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 Benefit	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.

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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. The was no percentage allocated to the Health Care Fund in fiscal year 2017.

The School's contractually required pension contribution to SERS was $14,717 for fiscal year 2017. The entire amount was contributed during the fiscal year.

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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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.

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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary and the School was required to contribute 14 percent as well. The School's entire 14 percent contribution was used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $65,281 for fiscal year 2017. Of this amount, $17,861 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2016, 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 - 2017	$164,584	$984,589	$1,149,173
Proportion of the Net Pension Liability - 2017	0.0022487%	0.00294144%	
Proportion of the Net Pension Liability - 2016	0.0011486%	0.00112739%	
Change in Proportionate Share	0.0011001%	0.00181405%	
Pension Expense	$50,922	$240,858	$291,780

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

At June 30, 2017, the School reported deferred outflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$2,220	$39,782	$42,002
Differences between projected and actual investment earnings	13,576	81,747	95,323
Changes of assumptions	10,987	-	10,987
Change in proportionate share	81,564	605,030	686,594
School contributions subsequent to the measurement date	14,717	65,281	79,998
Total Deferred Outflows of Resources	$123,064	$791,840	$914,904

$79,998 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, 2018.

Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	39,741	184,210	223,951
2019	39,730	184,211	223,941
2020	24,971	215,581	240,552
2021	3,904	142,558	146,462
Total	$108,346	$726,560	$834,906

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.

NOTE 8 – 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, 2016, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflatio	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflatio
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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) morality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$217,899	$164,584	$119,957

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, 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.

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumptions changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to District's net pension liability is expected to be significant.

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

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 %	

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. 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, 2016.

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	$1,308,438	$984,589	$711,402

NOTE 9 – POSTEMPLOYMENT BENEFITS

a. School Employees Retirement System

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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 Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2017, the health care allocation is 0.00 %. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. 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 2017, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

School contributions assigned to health care for the year ended June 30, 2017, 2016 and 2015 were $1,660 $1,118 and $829, respectively. The entire amount has been contributed for fiscal years 2016 and 2015. For fiscal year 2017, the entire amount is reported as intergovernmental payable.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports on SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

b. State Teachers Retirement System of Ohio

Plan Description - STRS 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 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 program includes hospitalization, physicians' fees, prescription drugs and partial 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.

NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The School's contractually required health care contributions to STRS for fiscal years 2017, 2016 and 2015 were all $0.

NOTE 10 – EMPLOYEE BENEFITS

Insurance Benefits

Health, Dental and Vision insurance coverage is provided through United Health Care, Superior Dental Care, and VSP, respectively. The School pays 80% for all coverages and the employee pays 20%.

NOTE 11 – PURCHASED SERVICES

During the fiscal year ended June 30, 2017, other purchased service expenses for services rendered by various vendors were as follows:

Other Professional and Technical Services	$ 20,489
Management Services	389,005
Postage	813
Food Services	107,428
Garbage Removal and Cleaning	1,265
Rentals	58,400
Travel and Meeting Expense	4,845
Advertising	1,756
Utilities	29,243
Transportation Services	300
Total	$ 613,544

NOTE 12 – CONTRACTED FISCAL SERVICES

The School is a party to a fiscal services agreement with Mangen & Associates (M&A), which is an education finance consulting company. The Agreement may be terminated by either party, with or without cause, by giving the other party one hundred and twenty days written notice to terminate. The Agreement provides that M&A will perform the following services:

1. Education Program Management
2. School Operations Management
3. Treasurer Services, Financial Management, EMIS/SOES and CCIP Administration

The School made payments of $433,466 during fiscal year 2017. In addition, the School reports a liability for services of $19,409 as of June 30, 2017, which is included as part of accounts payable.

NOTE 13 - CONTINGENCIES

Grants - The School received financial assistance from Federal and State agencies in the form of grants. The disbursement 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 of the School. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2017, if applicable, cannot be determined at this time. 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 fiscal year-end.

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017 and determined the School was overpaid by $16,239. Of this amount, $16,171 is reported as intergovernmental payable on the statement of net position.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School implemented *GASB Statement No. 77 "Tax Abatement Disclosures"* which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government's ability to raise resources in the future, by reporting (1) the government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 78 "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans"* which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 79 "Certain External Investment Pools and Pool Participants"* which 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 this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 80 "Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14"* which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 82 "Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73"* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement did not have an effect on the financial statements of the School.

NOTE 15 – SUBSEQUENT EVENT

On August 1, 2017, the School borrowed $77,146 to finance the purchase of a school bus. The note carries an interest rate of 5.69% and a maturity date of August 1, 2020.

NOTE 16 – MANAGEMENT'S PLAN TO ADDRESS DEFICIT NET POSITION

Toledo SMART Elementary School (TSES) began operations in fiscal year 2015 with loan support from private foundations since financial assistance was not available from the normal State / Federal start-up grants. These loans enabled TSES to provide gap funding for ongoing operations since State Foundation payments were not adequate to cover the high quality instruction program.

At June 30, 2017, the School had a deficit unrestricted net position of $437,602. This negative net position is a direct result of start-up purchases of school furniture, technology equipment and curriculum required to support the School's growing instruction program. Fortunately, the School's Management Team had experience with starting Ohio community schools without the benefit of State/Federal start-up grants and has developed a comprehensive long-range plan to eliminate the deficit balance. The Management's plan includes four primary areas of focus: (1) grow current student enrollment, (2) continue return-on-investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. As of March 2018, the Management Team and School Team has succeeded in making progress in each of these four priority areas. The School's enrollment improved significantly from FY16 to FY17, the use of ROI budgeting is in place for all spending requests, expenditures are evaluated for impact on student learning growth prior to approval and internal auditing is conducted on a quarterly basis to ensure continued process improvements.

The TSES Team will continue directing a significant amount of time and energy toward making stronger family connections to expand the awareness of the School's high academic performance and grow future student enrollment. In addition, financial planning will continue to focus on ROI confirmation for all purchases, trimming costs through process improvements and continued spending restrictions for any purchases not directly aligned to the School's instruction program. During fiscal year 2017, the School remained current on all outstanding payables with the exception of its lender, the Mangen Family Foundation. The objective for fiscal year 2018 through 2022 is to pay off a portion of the amount owed to the Mangen Family Foundation when cash flow is adequate to cover these payments while leaving enough cash to sustain a high-quality instruction program for TSES students. The School's Board has adopted a five-year balanced budget for FY18-FY22 which includes a plan for the sustaining payments toward the loan balance to the Mangen Family Foundation. The long-term objective is to build an unencumbered cash reserve equal to three months of core operating expenditures to meet ongoing cash flow requirements without the need for an outside loan or any philanthropic contributions.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST TWO FISCAL YEARS (1)

	2017	2016
School's Proportion of the Net Pension Liability	0.002249%	0.001149%
School's Proportionate Share of the Net Pension Liability	$ 164,584	$ 65,540
School's Covered-Employee Payroll	$ 75,562	$ 34,577
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	217.81%	189.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%

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

Note: Information prior to 2016 was unavailable, as 2015 was the School's first year of operation.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST TWO FISCAL YEARS (1)

	2017	2016
School's Proportion of the Net Pension Liability	0.002941%	0.001127%
School's Proportionate Share of the Net Pension Liability	$ 984,589	$ 311,578
School's Covered-Employee Payroll	$ 336,890	$ 129,501
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	292.26%	240.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%

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

Note: Information prior to 2016 was unavailable, as 2015 was the School's first year of operation.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST THREE FISCAL YEARS (1)

	2017	2016	2015
Contractually Required Contribution	$ 14,717	$ 10,579	$ 4,557
Contributions in relation to the contractually required contribution	$ 14,717	$ 10,579	$ 4,557
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 105,123	$ 75,562	$ 34,577
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%

(1) Fiscal year 2015 was the School's first year of operation.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST THREE FISCAL YEARS (1)

	2017	2016	2015
Contractually Required Contribution	$ 65,281	$ 47,164	$ 18,130
Contributions in relation to the contractually required contribution	$ 65,281	$ 47,164	$ 18,130
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 466,291	$ 336,890	$ 129,501
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%

(1) Fiscal year 2015 was the School's first year of operation.

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

Toledo SMART Elementary
Lucas County
1850 Airport Highway
Toledo, Ohio 43609

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 Toledo SMART Elementary, Lucas County, Ohio (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 12, 2018, wherein we noted the School has a deficit net position that may require additional receipts or cost-cutting measures by the School.

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.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.ohioauditor.gov

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

School's Response to Finding

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

Purpose of this Report

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

Dave Yost
Auditor of State

Columbus, Ohio

June 12, 2018

SCHEDULE OF FINDINGS
JUNE 30, 2017

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

FINDING NUMBER 2017-001

Noncompliance

The Charter Contract for a Community School between the Buckeye Hope Community Foundation and Toledo SMART Elementary School's Attendance, Truancy, Withdrawal, and Missing Children Policy provides that excused absences are only for 1) Illness, 2) Religious observance, and 3) Family emergency. Absences must be verified in writing by a parent/guardian. Absences for illness of longer than 2 days must be verified in writing by a doctor for an absence to be registered as excused. The policy also provides, in part, that a parent must call the School to inform the School that his/her child will be absent from School.

Due to deficiencies in the School's internal controls over excused absences and student records, the School did not obtain and/or retain supporting documentation (i.e. call logs, doctor notes, parent notes, etc.) as indicated above for thirty-five percent of excused absences examined during the audit period.

The lack of documentation for excused absences prevents the determination as to whether or not student absences were allowable in accordance with the provisions outlined above. The School's funding is largely driven by enrollment data information. Failure to properly document excused absences could allow for inaccurate reporting of enrollment data, resulting in overpayments to the School.

We recommend the School require and maintain documentation for excused student absences. The documentation should be added to individual attendance records and retained for audit.

Officials' Response:

The School has put processes in place to ensure Office Manager(s) are trained in what documentation needs to be kept for student attendance/absence purposes. The current Office Manager(s) have been trained and documentation is in place for FY18. The appropriate information is also housed in our ProgressBook Student Information (formerly known as DASL).

This page intentionally left blank.

Dave Yost · Auditor of State

TOLEDO SMART ELEMENTARY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 26, 2018