TOLEDO SMART ELEMENTARY
LUCAS COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

TOLEDO SMART ELEMENTARY
LUCAS COUNTY
JUNE 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit 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, 2018, 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 Matters

As discussed in Note 15 to the financial statements, during 2018, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

April 4, 2019

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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, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- Total net position of the School increased $328,464 during the fiscal year. Ending net position of the School was negative $336,538 compared with negative $665,002 at June 30, 2017.

- Total assets increased $108,073 from the prior fiscal year and total liabilities increased by $66,273 during this same 12-month period.

- The Schools operating loss for fiscal year 2018 was $236,931 which was a $239,249 improvement over the previous fiscal year operating loss of $476,180.

- Total revenues of $2,121,047 increased by $578,453 over the previous year.

Using this Annual Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net 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 as well as the net liability for other post-employment benefits.

Financial Analysis

Table 1 provides a summary of the School's net position at June 30, 2018 and June 30, 2017.

Table 1
Net Position at Year End

	2018	Restated 2017
Assets:		
Current and Other Assets	$ 92,372	$ 71,104
Capital Assets, Net	209,707	122,902
Total Assets	302,079	194,006
Deferred Outflows of Resources:		
Pension	1,195,934	914,904
OPEB	75,885	1,660
Total Deferred Outflows of Resources	1,271,819	916,564
Liabilities:		
Current Liabilities	375,541	377,090
Noncurrent Liabilities	1,466,304	1,398,482
Total Liabilities	1,841,845	1,775,572
Deferred Inflows of Resources:		
Pension	40,631	-
OPEB	27,960	-
Total Deferred Inflows of Resources	68,591	-
Net Position:		
Net Investment in Capital Assets	99,997	63,170
Restricted	54,010	30,474
Unrestricted (deficit)	(490,545)	(758,646)
Total Net Position (deficit)	$ (336,538)	$ (665,002)

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the School adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OBEP liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from negative $437,602 to negative $665,002.

Current and Other Assets increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of an increase in intergovernmental receivable.

Capital Assets, Net also increased significantly. This increase represents the amount in which current year acquisitions exceeded current year depreciation expense.

Deferred Outflows of Resources also increased significantly. This increase is primarily the result of an increase in the School's proportionate share of the net pension and net OPEB liabilities due to the growth of the School.

Current Liabilities remained constant with the amount reported in the prior period. Although the total was constant there was a significant increase in accrued wages and a corresponding decrease in the current portion of notes payable.

Financial Analysis

Table 2 shows the change in net position for the fiscal year ended June 30, 2018 and June 30, 2017.

Table 2
Changes in Net Position

	2018	Restated 2017
Operating Revenues:		
Foundation Revenues	$ 1,506,923	$ 1,133,193
Other Unrestricted Grants in Aid	45,414	35,080
Total Operating Revenues	1,552,337	1,168,273
Operating Expenses:		
Salaries and Wages	959,757	571,415
Fringe Benefits	(5,535)	367,795
Purchased Services	670,508	613,544
Materials and Suppilies	91,347	50,619
Depreciation	35,688	25,223
Other	37,503	15,857
Total Operating Expenses	1,789,268	1,644,453
Operating Loss	(236,931)	(476,180)
Nonoperating Revenues (Expenses)		
Federal and State Grants	322,512	181,497
Other Restricted Grants in Aid	234,783	186,690
Contributions and Donations	10,764	6,134
Interest Expense	(3,315)	(5,391)
Other	651	-
Total Nonoperating Revenues (Expenses)	565,395	368,930
Change in Net Position	328,464	(107,250)
Net Position, Beginning of Year (deficit), Restated	(665,002)	N/A
Net Position, End of the Year (deficit)	$ (336,538)	$ (665,002)

Total revenues increased significantly in comparison with the prior fiscal year. This increase is primarily the result of an increase in enrollment from 147 students in fiscal year 2017 to 188 students in fiscal year 2018.

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $1,660 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $26,547. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	$	1,789,268
Negative pension expense under GASB 75		26,547
2018 contractually required contribution		4,083
Adjusted 2018 operating expenses		1,819,898
Total 2017 operating expenses under GASB 45		1,644,453
Increase in operating expenses not related to OPEB	$	175,445

This increase in operating expenses is primarily the result of a significant increase in enrollment from 147 students in fiscal year 2017 to 188 students in fiscal year 2018.

Capital Assets - At fiscal year-end, the School had $209,707 invested in capital assets, an increase of $86,805 in comparison with the prior fiscal year-end. This increase represents the amount in which current year acquisitions of $122,493 exceeded current year depreciation of $35,688. See Note 5 of the basic financial statements for additional details.

Debt - At fiscal year-end, the School's notes payable balance was $235,979, a decrease of $33,253 in comparison with the prior fiscal year-end. This net decrease represents the amount in which current year principal payments totaling $110,399 exceeded new loan issuances of $77,146 for the purchase of a school bus. For more information on debt, see Note 7 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 fifth 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, 2018

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 38,083
Intergovernmental Receivable	39,453
Prepaid Items	6,836
Security Deposit	8,000
Total Current Assets	92,372
Noncurrent Assets	
Capital Assets, Net	209,707
Total Assets	302,079
Deferred Outflows of Resources:	
Pension	1,195,934
OPEB	75,885
Total Deferred Outflows of Resources	1,271,819
Liabilities:	
Current Liabilities	
Accounts Payable	43,810
Accrued Wages and Benefits Payable	98,172
Intergovernmental Payable	29,098
Notes Payable (Current Portion)	197,465
Capital Lease Payable (Current Portion)	6,996
Total Current Liabilities	375,541
Long-Term Liabilities:	
Notes Payable	38,514
Capital Lease Payable	26,235
Net Pension Liability	1,156,860
Net OPEB Liability	244,695
Total Long-Term Liabilities	1,466,304
Total Liabilities	1,841,845
Deferred Inflows of Resources:	
Pension	40,631
OPEB	27,960
Total Deferred Inflows of Resources	68,591
Net Position:	
Net Investment in Capital Assets	99,997
Restricted	54,010
Unrestricted (deficit)	(490,545)
Total Net Position (deficit)	$ (336,538)

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, 2018

Operating Revenues:	
Foundation Revenue	$ 1,506,923
Other Unrestricted Grants in Aid	45,414
Total Operating Revenues	1,552,337
Operating Expenses:	
Salaries	959,757
Fringe Benefits	(5,535)
Purchased Services	670,508
Materials and Supplies	91,347
Depreciation	35,688
Other	37,503
Total Operating Expenses	1,789,268
Operating Loss	(236,931)
Non-Operating Revenues (Expenses):	
Federal and State Grants	322,512
Other Restricted Grants in Aid	234,783
Contributions and Donations	10,764
Other Non-Operating Revenue	651
Interest Expense	(3,315)
Total Non-Operating Revenues (Expenses)	565,395
Changes in Net Position	328,464
Net Position Beginning of Year (deficit), Restated	(665,002)
Net Position End of Year (deficit)	$ (336,538)

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, 2018

Cash Flows from Operating Activities:	
Received from Foundation Payments	$ 1,492,810
Received from Disadvantaged Pupil Impact Aid	45,414
Payments to Suppliers for Goods and Services	(750,192)
Payments to Employees for Services and Benefits	(1,182,001)
Payments to Other	(31,500)
Net Cash Used for Operating Activities	(425,469)
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	539,324
Principal Paid on Loan	(50,000)
Received from Contributions and Donations	10,764
Other Non-Operating Receipts	651
Net Cash Provided by Noncapital Financing Activities	500,739
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(122,493)
Received from Loan	112,126
Principal Paid on Loan	(62,148)
Interest Paid on Loan	(3,315)
Net Cash Used for Capital and Related Financing Activities	(75,830)
Net Decrease in Cash and Cash Equivalents	(560)
Cash and Cash Equivalents at Beginning of Year	38,643
Cash and Cash Equivalents at End of Year	$ 38,083

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, 2018

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(236,931)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		35,688
Changes in Assets and Liabilities:		
Intergovernmental Receivable		(3,008)
Prepaid Items		(849)
Accounts Payable		18,515
Accrued Wages and Benefits Payable		33,376
Intergovernmental Payable		(8,918)
Net Pension Liability		(232,712)
Net OPEB Liability		(30,630)
Net Cash Used for Operating Activities	$	(425,469)

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 13).

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 20 certificated full-time teaching personnel who provide services to 188 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

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

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, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an 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 and other postemployment benefits (OPEB). These deferred outflows of resources related to pensions and OPEB are explained in Note 9 and Note 10.

In addition to liabilities, the statement of financial 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(s) and will not be recognized as an inflow of resources (revenue) until that time. This deferred inflow of resources related to pension and OPEB are explained in Note 9 and Note 10.

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 2018.

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 2018 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 and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans 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, 2018, the carrying amount of the School's deposits was $38,083 and the bank balance was $99,191. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, 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, 2018 consisted of federal grants receivable, totaling $19,425, refunds from Bureau of Workers Compensation and School Employees Retirement System, totaling $3,973, and federal food service subsidies of $16,055. All receivables are considered collectible in full.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 15,531	$ 45,347	$ -	$ 60,878
Vehicles	157,756	77,146	-	234,902
Total Capital Assets	173,287	122,493	-	295,780
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(5,327)	(7,641)	-	(12,968)
Vehicles	(45,058)	(28,047)	-	(73,105)
Total Accumulated Depreciation	(50,385)	(35,688)	-	(86,073)
Capital Assets, Net	$ 122,902	$ 86,805	$ -	$ 209,707

NOTE 6 – CAPITAL LEASE

The School has entered into a lease agreement with De Lage Landen Financial Services for the lease of two copiers with accessories. The term of the lease is 60 months and the first payment was made on April 5, 2018 with required payments of $583 per month. Lease payments during the fiscal year totaled $1,749.

The following is a schedule of the future payments required under the capital lease as of June 30, 2018:

Year Ended	Copier
June 30, 2019	$ 6,996
June 30, 2020	6,996
June 30, 2021	6,996
June 30, 2022	6,996
June 30, 2023	5,247
Total	$ 33,231

NOTE 7 – LONG TERM OBLIGATIONS

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Mangen Note	$ 209,500	$ -	$ (50,000)	$ 159,500	$ 159,500
Bus Loan FY15	20,299	-	(20,299)	-	-
Bus Loan FY16	39,433	-	(19,184)	20,249	20,249
Bus Loan FY18	-	77,146	(20,916)	56,230	17,716
Total	$ 269,232	$ 77,146	$ (110,399)	$ 235,979	$ 197,465

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

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. This note was paid in full during fiscal year 2018.

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

In August 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, 2021.

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

June 30	Principal	Interest	Total
2019	$ 197,465	$ 4,323	$ 201,788
2020	18,724	2,191	20,915
2021	19,790	1,126	20,916
Total	$ 235,979	$ 7,640	$ 243,619

NOTE 8 – 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 9 – 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 District 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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

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*.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

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, 2018, the allocation to pension, death benefits, and Medicare B was 13.50 percent. The remaining .50 percent was allocated to the Health Care Fund.

The School's contractually required pension contribution to SERS was $26,058 for fiscal year 2018. The entire amount was paid 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.

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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 after termination of employment at age 50 or later.

NOTE 9 – 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. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 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 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $107,344 for fiscal year 2018. The entire amount has been contributed as of June 30, 2018. Of this amount, $21,218 is reported as intergovernmental payable.

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

The net pension liability was measured as of June 30, 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	$189,191	$967,669	$1,156,860
Proportion of the Net Pension Liability-Current Measurement Date	0.0031665%	0.00407350%	
Proportion of the Net Pension Liability-Prior Measurement Date	0.0022487%	0.00294144%	
Change in Proportionate Share	0.0009178%	0.00113206%	
Pension Expense	$40,835	($140,145)	($99,310)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

At June 30, 2018, 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	$ 8,142	$ 37,367	$ 45,509
Changes of assumptions	9,783	211,640	221,423
Changes in proportion and differences between School contributions and proportionate share of contributions	89,809	705,791	795,600
School contributions subsequent to the measurement date	26,058	107,344	133,402
Total Deferred Outflows of Resources	$ 133,792	$ 1,062,142	$ 1,195,934
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$ 7,798	$ 7,798
Net difference between projected and actual earnings on pension plan investments	900	31,933	32,833
Total Deferred Inflows of Resources	$ 900	$ 39,731	$ 40,631

$133,402 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, 2019.

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:			
2019	$55,328	$274,948	$330,276
2020	41,707	432,821	474,528
2021	14,212	123,956	138,168
2022	(4,413)	83,342	78,929
Total	$106,834	$915,067	$1,021,901

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.0 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disable members were based upon the 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.

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

NOTE 9 – 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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset 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	$262,548	$189,191	$127,740

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0 percent effective July 1, 2017

Mortality rates were based on the RP-2014 Annuitant Mortality Table (with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*The 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio’s investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the 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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	$1,387,120	$967,669	$614,344

Benefit Term Changes Since the Prior Measurement Date Effective July 1, 2017, the Cost of Living Adjustment was reduced to zero.

NOTE 10 – POSTEMPLOYMENT BENEFITS

Net OPEB Liability

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

The net OPEB liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates 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 OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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.

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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. 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 2018, the School's surcharge obligation was $3,118. The surcharge, added to the allocated portion of the 14 percent employer contribution rate, is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was $4,083 for fiscal year 2018. Of this amount, $3,164 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the 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 discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability was based on the School 's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net OPEB Liability Current Measurement Date	0.0031956%	0.00407350%	
Proportion of the Net OPEB Liability Prior Measurement Date	0.0025173%	0.00294144%	
Change in Proportionate Share	0.0006783%	0.00113206%	
Proportionate Share of the Net OPEB Liability	$85,762	$158,933	$244,695
OPEB Expense	$9,842	($36,389)	($26,547)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ -	$ 9,175	$ 9,175
Difference between School contributions and proportionate share of contributions	14,193	48,434	62,627
School contributions subsequent to the measurement date	4,083	-	4,083
Total Deferred Outflows of Resources	$ 18,276	$ 57,609	$ 75,885
Deferred Inflows of Resources			
Changes of assumptions	$ 8,138	$ 12,803	$ 20,941
Net difference between projected and actual earnings on OPEB plan investments	226	6,793	7,019
Total Deferred Inflows of Resources	$ 8,364	$ 19,596	$ 27,960

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

$4,083 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$2,136	$9,504	$11,640
2020	2,136	9,504	11,640
2021	1,612	9,504	11,116
2022	(55)	9,501	9,446
Total	$5,829	$38,013	$43,842

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's proportionate share of the net OPEB liability	$103,568	$85,762	$71,654

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

	1% Decrease (6.5% decreasing to 4.0 percent)	Current Trend Rate (7.5% decreasing to 5.0 percent)	1% Increase (8.5% decreasing to 6.0 percent)
School's proportionate share of the net OPEB liability	$69,589	$85,762	$107,166

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's proportionate share of the net pension liability	$213,365	$158,933	$115,914

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net pension liability	$110,420	$158,933	$222,782

NOTE 11 – 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 12 – PURCHASED SERVICES

During the fiscal year ended June 30, 2018, other purchased service expenses for services rendered by various vendors were as follows:

Other Professional and Technical Services	$ 179,704
Management Services	242,827
Postage	806
Food Services	116,096
Garbage Removal and Cleaning	11,922
Rentals	62,383
Travel and Meeting Expense	4,834
Advertising	1,042
Utilities	50,371
Transportation Services	523
Total	$ 670,508

NOTE 13 – 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 $357,297 during fiscal year 2018. In addition, the School reports a liability for services of $40,379 as of June 30, 2018, which is included as part of accounts payable.

NOTE 14 - CONTINGENCIES

Grants - The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2018, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.

NOTE 14 – CONTINGENCIES (continued)

School Foundation - School 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 an 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 2018 and determined the School was overpaid by $2,058. This amount is reported as intergovernmental payable on the Statement of Net Position.

In addition, the School's contract with their Sponsor requires payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 have been finalized. The impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with this contract resulted in an decrease of fees of $62. This amount is not material to the School's financial statements at fiscal year-end and has not been recorded.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLES

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

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

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLES

Net Position June 30, 2017	(437,602)
Adjustments:	
Net OPEB Liability	(229,060)
Deferred Outflow- Payments Subsequent to Measurement Date	1,660
Restated Net Position June 30, 2017	(665,002)

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

Other GASB Statements implemented in fiscal year 2018 are as follows:

GASB Statement No. 81 "Irrevocable Split-Interest Agreements" improves financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement did not have an effect on the financial statements of the School.

GASB Statement No. 86 "Certain Debt Extinguishment Issues" improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement did not have an effect on the financial statements of the School.

NOTE 16 – MANAGEMENT'S PLAN TO ADDRESS DEFICIT POSITION

At the fiscal year ended June 30, 2018, the School reported a negative net position of $336,538 on the Statement of Net Position. $198,327 of this negative net position was made up of the cumulative effects of implementing GASB 68 and 75, resulting in a true operational deficit of $138,211. This figure was an improvement over the fiscal year 2017 operational deficit of $203,333. This was achieved in part by an increase in the School's enrollment to 189 for fiscal year 2018 compared to an enrollment of 147 in fiscal year 2017. As of the date of this report, the School continues to show further improvement, reporting an FTE enrollment of 196 in the month of February 2019 and positive net income of just over $101,000 through the same period. The School's Board and the administration team continue its collaborative efforts to improve the financial stability of the School. Its ability to maintain a stable administrative and instructional team along with active marketing initiatives is anticipated to help produce future enrollment growth, which will in turn provide an opportunity for the School to recover from its current deficits.

NOTE 17 – SUBSEQUENT EVENTS

On July 1, 2018, the School did not make payment on a promissory note which had a remaining balance of $159,500 with Mangen Family Foundation. The School did not make the final scheduled debt service payment by June 30, 2018, because the Board did not have sufficient funds to make such a lump sum payment and also adequately continue school operations. Since that time, the School has been communicating through the Board's legal counsel with a representative of Mangen Family Foundation in an attempt to arrange for a payment plan of amounts properly owed.

On September 25, 2018, after the Board concluded services were not being performed or performed adequately, the School passed a resolution terminating services with Mangen & Associates, LLC. As a result of the School terminating services, Mangen has communicated to the Board that all amounts due under the agreement are owed through the date of termination. As of the date of this report, there has been no resolution. Though, the Board's legal counsel has communicated and continues to communicate with a Mangen representative about settlement of the matter.

Massa Financial Solutions, LLC was hired to provide treasurer services beginning October 1, 2018.

On October 23, 2018, the Board approved to change the name of the School to Escuela SMART Elementary.

NOTE 18 – RELATED PARTY TRANSACTION

During fiscal year 2018, Mangen and Associates was under contract to provide educational program management, school operations management, treasurer services, financial management, and EMIS, SOES and CCIP administration, as described in Note 13. In addition, the Mangen Family Foundation has loaned funds to the School, as described in Note 7. Mangen and Associates and Mangen Family Foundation are related parties.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST THREE FISCAL YEARS (1)

	2018	2017	2016
School's Proportion of the Net Pension Liability	0.0031665%	0.0022487%	0.0011486%
School's Proportionate Share of the Net Pension Liability	$ 189,191	$ 164,584	$ 65,540
School's Covered Payroll	$ 105,123	$ 75,562	$ 34,577
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	179.97%	217.81%	189.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

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

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST THREE FISCAL YEARS (1)

	2018	2017	2016
School's Proportion of the Net Pension Liability	0.0040735%	0.0029414%	0.0011274%
School's Proportionate Share of the Net Pension Liability	$ 967,669	$ 984,589	$ 311,578
School's Covered Payroll	$ 466,291	$ 336,890	$ 129,501
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	207.52%	292.26%	240.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

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

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2018	2017	2016	2015
Contractually Required Contribution	$ 26,058	$ 14,717	$ 10,579	$ 4,557
Contributions in Relation to the Contractually Required Contribution	$ 26,058	$ 14,717	$ 10,579	$ 4,557
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 193,020	$ 105,123	$ 75,562	$ 34,577
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2018	2017	2016	2015
Contractually Required Contribution	$ 107,344	$ 65,281	$ 47,164	$ 18,130
Contributions in Relation to the Contractually Required Contribution	$ 107,344	$ 65,281	$ 47,164	$ 18,130
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 766,739	$ 466,291	$ 336,890	$ 129,501
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST TWO FISCAL YEARS (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.0031956%	0.0025173%
School's Proportionate Share of the Net OPEB Liability	$ 85,762	$ 71,751
School's Covered Payroll	$ 105,123	$ 75,562
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	81.58%	94.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST TWO FISCAL YEARS (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.0040735%	0.00294144%
School's Proportionate Share of the Net OPEB Liability	$ 158,933	$ 157,309
School's Covered Payroll	$ 466,291	$ 336,890
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	34.08%	46.69%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2018	2017	2016	2015
Contractually Required Contribution (2)	$ 4,083	$ 1,660	$ 1,118	$ 829
Contributions in Relation to the Contractually Required Contribution	$ 4,083	$ 1,660	$ 1,118	$ 829
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 193,020	$ 105,123	$ 75,562	$ 34,577
OPEB Contributions as a Percentage of Covered Payroll (2)	2.12%	1.58%	1.48%	2.40%

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

See accompanying notes to the required supplementary information

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2018	2017	2016	2015
Contractually Required Contribution	$ -	$ -	$ -	$ -
Contributions in Relation to the Contractually Required Contribution	$ -	$ -	$ -	$ -
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 766,739	$ 466,291	$ 336,890	$ 129,501
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

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

See accompanying notes to the required supplementary information

Net Pension Liability

School Employees Retirement System

Changes in benefit terms:

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00% to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in assumptions:

There were no changes in methods and assumptions used in the calculation of actuarially determined contributions for fiscal year 2018.

State Teachers Retirement System

Changes in benefit terms:

For fiscal year 2018, the COLA was reduced to zero.

Changes in assumptions:

For fiscal year 2018, the STRS Board adopted several assumption changes, including changes to:

- Inflation assumption lowered from 2.75% to 2.50%;
- Investment return assumption lowered from 7.75% to 7.45%;
- Total salary increases rates lowered by decreasing merit component of the individual salary increases, as well as by 0.25% due to lower inflation;
- Payroll growth assumption lowered to 3.00%;
- Updated the healthy and disabled mortality assumption to the “RP-2014” mortality tables with generational improvement scale MP-2016; and
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Net OPEB Liability

School Employees Retirement System

Changes in Assumptions:

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

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan invesment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

State Teachers Retirement System

Changes in Assumptions:

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 4, 2019, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* We also noted the School has suffered recurring losses from operations and has a net deficiency.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

April 4, 2019

TOLEDO SMART ELEMENTARY
LUCAS COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Noncompliance due to deficiency in the School's internal controls over excused absences and student records.	Fully corrected.	None

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OHIO AUDITOR OF STATE
KEITH FABER

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
APRIL 18, 2019