



OHIO AUDITOR OF STATE
KEITH FABER



**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Dayton Regional STEM School
Montgomery County
1724 Woodman Drive
Kettering, Ohio 45420

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Dayton Regional STEM School, Montgomery 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 the Dayton Regional STEM School, Montgomery County 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 Matter

As discussed in Note 3 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.

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 July 18, 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

July 18, 2019

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The management's discussion and analysis of the Dayton Regional STEM School's (the "School") financial performance provides an overall review of the School's financial activities 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 notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2018 are as follows:

- In total, net position was \$8,933,591 at June 30, 2018.
- The School had operating revenues of \$5,579,062, operating expenses of \$4,801,646, non-operating revenues of \$523,321, and non-operating expenses of \$252,164 for the fiscal year ended June 30, 2018.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position and statement of revenues, expenses and change in net position provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2018?" The statement of net position and statement of revenues, expenses and change in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-35 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's net pension liability and net OPEB liability. The required supplementary information can be found on pages 37-42 of this report.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The table below provides a summary of the School's net position at June 30, 2018 and June 30, 2017. The net position at June 30, 2017 has been restated as described in Note 3.

	Net Position	
	<u>2018</u>	<u>Restated 2017</u>
<u>Assets</u>		
Current assets	\$ 4,947,368	\$ 4,316,039
Capital assets, net	<u>8,061,188</u>	<u>8,023,000</u>
Total assets	<u>13,008,556</u>	<u>12,339,039</u>
<u>Deferred Outflows of Resources</u>		
	<u>8,960</u>	<u>38,601</u>
<u>Liabilities</u>		
Current liabilities	869,230	963,117
Non-current liabilities	<u>3,130,070</u>	<u>3,529,505</u>
Total liabilities	<u>3,999,300</u>	<u>4,492,622</u>
<u>Deferred Inflows of Resources</u>		
	<u>84,625</u>	<u>-</u>
<u>Net Position</u>		
Net investment in capital assets	4,689,521	4,283,940
Restricted	687,914	466,353
Unrestricted (deficit)	<u>3,556,156</u>	<u>3,134,725</u>
Total net position	<u>\$ 8,933,591</u>	<u>\$ 7,885,018</u>

The net pension liability (NPL) is reported by the School 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 OPEB 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.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

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 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 \$7,928,370 to \$7,885,018.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the School's net position totaled \$8,933,591.

At year-end, capital assets represented 61.97% of total assets. Capital assets consisted of land, land improvements, buildings and improvements and furniture, fixtures and equipment. Net investment in capital assets at June 30, 2018, was \$4,689,521. These capital assets are used to provide services to the students and are not available for future spending. Although the School's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The table below shows the changes in net position for the fiscal year 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.

	Change in Net Position	
	<u>2018</u>	<u>Restated 2017</u>
<u>Operating revenues:</u>		
Sales	\$ 148,737	\$ 114,846
State foundation	5,103,275	4,726,219
Tuition and fees	133,940	145,690
Donations	109,424	147,380
Miscellaneous	<u>83,686</u>	<u>46,341</u>
Total operating revenues	<u>5,579,062</u>	<u>5,180,476</u>
<u>Operating expenses:</u>		
Purchased services	4,197,738	3,895,473
Materials and supplies	325,250	323,598
Other	99,471	-
Depreciation	<u>179,187</u>	<u>170,686</u>
Total operating expenses	<u>4,801,646</u>	<u>4,389,757</u>
<u>Non-operating revenues/(expenses):</u>		
Federal and state grants	302,802	520,206
Gifts and donations	195,301	209,097
Interest	25,218	2,218
Rent	-	8,160
Interest and fiscal charges	<u>(252,164)</u>	<u>(243,752)</u>
Total non-operating revenues/(expenses)	<u>271,157</u>	<u>495,929</u>
Change in net position	1,048,573	1,286,648
Net position at beginning of year (restated)	<u>7,885,018</u>	<u>N/A</u>
Net position at end of year	<u>\$ 8,933,591</u>	<u>\$ 7,885,018</u>

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. GASB 45 required recognizing OPEB 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 \$9,741. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 expenses under GASB 75	\$ 4,801,646
Negative OPEB expense under GASB 75	<u>9,741</u>
Adjusted 2018 expenses	4,811,387
Total 2017 expenses under GASB 45	<u>4,389,757</u>
Increase in expenses not related to OPEB	<u>\$ 421,630</u>

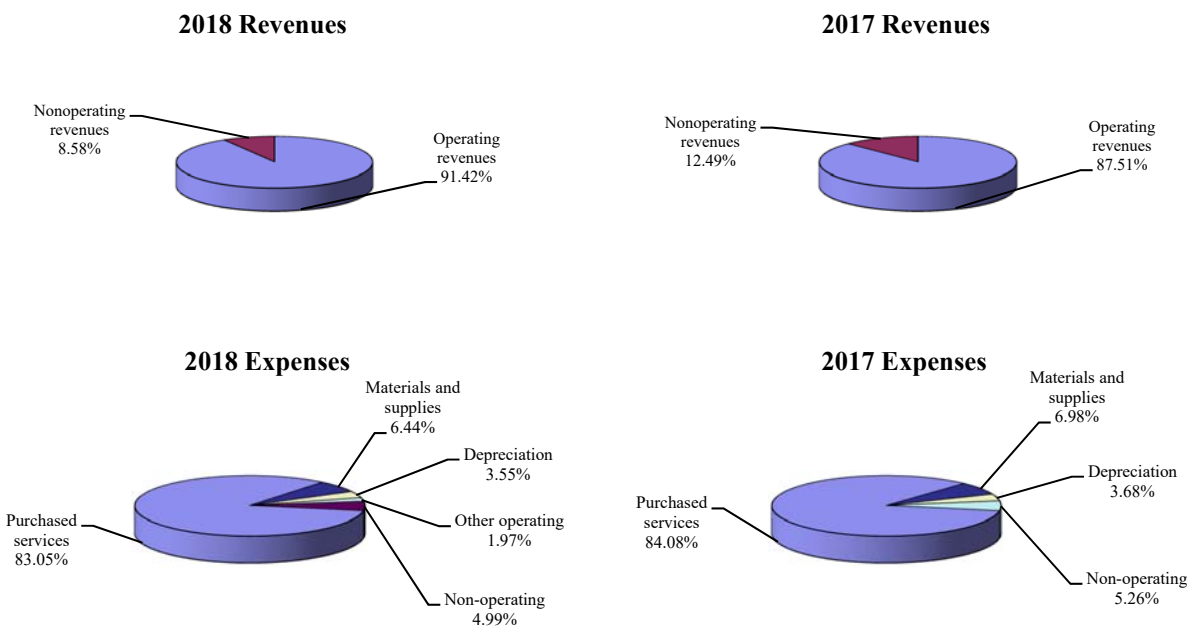
**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

Operating revenues of the School increased \$398,586 or 7.69%. This increase can mainly be attributed to an increase in State foundation revenue from more students attending.

Operating expenses increased \$411,889 or 9.38%. This increase is the result of additional costs paid to Wright State University for employee salaries and operating costs.

The graphs below illustrate the revenues and expenses for the School during the fiscal year 2018 and 2017.



Capital Assets

At the end of fiscal year 2018, the School had \$8,061,188 invested in land, land improvements, buildings and improvements and furniture, fixtures and equipment. The following table shows June 30, 2018 balances compared to June 30, 2017.

**Capital Assets at June 30
(Net of Depreciation)**

	<u>2018</u>	<u>2017</u>
Land	\$ 824,870	\$ 824,870
Construction in progress	-	107,393
Land improvements	47,660	-
Buildings and improvements	7,102,313	7,046,978
Furniture, fixtures and equipment	<u>86,345</u>	<u>43,759</u>
Total	<u>\$ 8,061,188</u>	<u>\$ 8,023,000</u>

See Note 6 to the basic financial statements for additional information on the School's capital assets.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

Debt Administration

At June 30, 2018, the School had \$3,371,667 in capital leases outstanding. Of this total, \$260,000 is due within one year and \$3,111,667 is due in more than one year.

See Notes 7 and 9 to the basic financial statements for detail on the School's debt administration.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Laura Sauber, Treasurer at Dayton Regional STEM School, 1724 Woodman Dr, Kettering, Ohio 45420 or e-mail at lsauber@sharedresourcecenter.com.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:

Current assets:	
Equity in pooled cash	\$ 3,509,951
Cash held in escrow with trustee.	1,130,000
Cash held in segregated accounts	245,359
Receivables:	
Accounts	5,796
Intergovernmental.	56,262
Total current assets	4,947,368
Non-current assets:	
Nondepreciable capital assets	824,870
Depreciable capital assets, net	7,236,318
Total non-current assets.	8,061,188
Total assets.	13,008,556

Deferred outflows of resources:

Pension	8,960
Total deferred outflows of resources	8,960

Liabilities:

Current liabilities:	
Accounts payable.	28,969
Intergovernmental payable	130,261
Capital leases payable	260,000
Unearned revenue	450,000
Total current liabilities	869,230
Non-current liabilities:	
Capital leases payable	3,111,667
Net pension liability	13,073
Net OPEB liability	5,330
Total non-current liabilities	3,130,070
Total liabilities	3,999,300

Deferred inflows of resources:

Pension	56,344
OPEB	28,281
Total deferred inflows of resources	84,625

Net position:

Net investment in capital assets	4,689,521
Restricted for:	
Restricted for state programs.	4,265
Restricted for federal programs	63,093
Restricted for food service.	33,051
Restricted for student activities	37,505
Restricted for debt service	550,000
Unrestricted.	3,556,156
Total net position.	\$ 8,933,591

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Operating revenues:	
Sales	\$ 148,737
State foundation	5,103,275
Tuition and fees.	133,940
Donations	109,424
Miscellaneous	83,686
Total operating revenues	<u>5,579,062</u>
 Operating expenses:	
Purchased services.	4,197,738
Materials and supplies	325,250
Other.	99,471
Depreciation	179,187
Total operating expenses.	<u>4,801,646</u>
 Operating income	 <u>777,416</u>
 Non-operating revenues (expenses):	
Federal and state grants	302,802
Gifts and donations	195,301
Interest	25,218
Interest and fiscal charges	(252,164)
Total nonoperating revenues (expenses)	<u>271,157</u>
 Change in net position	 1,048,573
 Net position at beginning of year (restated)	 <u>7,885,018</u>
Net position at end of year	<u>\$ 8,933,591</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Cash received from sales	\$ 148,652
Cash received from state foundation	5,067,909
Cash received from donations	109,409
Cash received from students	133,840
Cash received from miscellaneous sources	78,090
Cash payments for purchased services	(4,092,593)
Cash payments for materials and supplies	(390,358)
Cash payments for other expenses	(99,471)
	<u>955,478</u>
Net cash provided by operating activities	<u>955,478</u>
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	316,421
	<u>316,421</u>
Net cash provided by noncapital financing activities.	<u>316,421</u>
Cash flows from capital and related financing activities:	
Interest and fiscal charges	(56,863)
Capital lease principal payments	(260,000)
Acquisition of capital assets	(324,768)
	<u>(641,631)</u>
Net cash used in capital and related financing activities.	<u>(641,631)</u>
Cash flows from investing activities:	
Interest received	25,218
	<u>25,218</u>
Net cash provided by investing activities	<u>25,218</u>
Change in cash and cash equivalents	655,486
Cash at beginning of year	4,229,824
Cash at end of year	\$ 4,885,310

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 777,416
Adjustments:	
Depreciation	179,187
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Increase in accounts receivable	(5,796)
Increase in intergovernmental receivable.	(21,166)
Decrease in deferred outflows - pension	29,641
Decrease in accounts payable.	(65,055)
Increase in intergovernmental payable.	116,061
Decrease in net pension liability.	(101,413)
Decrease in net OPEB liability	(38,022)
Increase in deferred inflows - pension.	56,344
Increase in deferred inflows - OPEB.	28,281
	<u>28,281</u>
Net cash provided by operating activities	<u>\$ 955,478</u>

Non-cash transactions:
The School had outstanding intergovernmental receivables related to non-operating grants of \$35,096 and \$86,215 at June 30, 2018 and June 30, 2017, respectively.

At June 30, 2018, the School had \$450,000 in unearned revenue outstanding.

During fiscal year 2017, the School purchased \$107,393 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - DESCRIPTION OF THE SCHOOL

Dayton Regional STEM School (the “School”) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3326 to maintain and provide a school exclusively for any science, technology, engineering, math, and related teaching services. The School currently serves grades six through 12. The School, which is part of the State’s education program, is independent of any school district and serves the areas of Clark, Greene, and Montgomery Counties. The School is capable of suing and being sued, contracting and being contracted with, acquiring, holding, possessing, and disposing of real and personal property, taking and holding in trust for the use and benefit of the School, any grant or devise of land and any donation or bequest of money or other personal property.

The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School’s tax-exempt status.

The School was formed from a grant through Wright State University from the Ohio STEM Learning Network, which is managed by Battelle. The Ohio STEM Learning Network is a private non-profit program whose objective is to accelerate the spread of science, technology, engineering, and mathematics education innovations across Ohio using a network and systems oriented approach. The Ohio STEM Learning Network is funded through philanthropic cash and in-kind investments provided by private donors.

The School operates under an 9-member, self-appointed, Governing Board that consists of representatives of the regional organizations that were partnered to establish the School and shall not exceed 15 members. The Governing Board is responsible for adopting policies and procedures that govern the School and supervising the School Superintendent.

The School participates in two jointly governed organizations. These organizations are presented in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Educational Technology Association (META)
- Southwestern Ohio Educational Purchasing Council

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 nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

A. Basis of Presentation

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

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources are included on the statement of net position. Equity consists of net total position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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.

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, see Notes 12 and 13 for deferred outflows of resources related the School's net pension liability and net OPEB liability, respectively.

In addition to liabilities, the government-wide statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, see Notes 12 and 13 for deferred inflows of resources related to the School's net pension liability and net OPEB liability, respectively.

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

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

F. Cash and Cash Equivalents

The School's Treasurer accounts for all monies received by the School. The School maintains two interest bearing depository accounts and all funds of the School are maintained in these accounts. These accounts are presented on the statement of net position as "equity in pooled cash".

During fiscal year 2018, the School had an account held in escrow for future debt service related to the capital lease obligation. This account is presented on the statement of net position as "cash held in escrow with trustee".

During fiscal year 2018, the School had an investment with the Dayton Foundation. The investment with the Dayton Foundation is reported at fair value which is based on quoted market prices. This account is presented on the statement of net position as "cash held in segregated accounts".

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School are presented on the financial statements as cash and cash equivalents.

G. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their acquisition values as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure.

All reported capital assets except land are depreciated. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings/improvements	40 years
Furniture/fixtures/equipment	5 - 20 years

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. For the School, these revenues are payments from the State foundation program, classroom materials and fees and food service charges. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

I. Intergovernmental Revenues

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenues received from the State Foundation Program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State and Federal grant revenue for the fiscal year 2018 was \$302,802.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

J. Estimates

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

K. Net Position

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

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

L. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, 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.

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2018, the School has implemented GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pension”, GASB Statement No. 81 “Irrevocable Split-Interest Agreements” GASB Statement No. 85, “Omnibus 2017” and GASB Statement No. 86, “Certain Debt Extinguishments”.

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the School’s postemployment benefit plan disclosures, as presented in Note 13 to the basic financial statements, and added required supplementary information which is presented after the note to the basic financial statements.

GASB Statement No. 81 improves the accounting and 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 GASB Statement No. 81 did not have an effect on the financial statements of the School.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - CHANGES IN ACCOUNTING POLICIES (Continued)

GASB Statement No. 86 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 GASB Statement No. 86 did not have an effect on the financial statements of the School.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Business-type Activities
Net position as previously reported	\$ 7,928,370
Net OPEB liability	(43,352)
Restated net position at July 1, 2017	\$ 7,885,018

The School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate note interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the School had \$40 in undeposited cash on hand which is included on the financial statements of the School as part of "equity in pooled cash".

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all School deposits was \$3,509,911 and the bank balance of all School deposits was \$3,549,297. Of the bank balance, \$250,000 was covered by the FDIC and \$3,299,297 was covered by the Ohio Pooled Collateral System.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the School and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. At December 31, 2017, \$251,172 of the School's bank balance of \$3,203,580 was exposed to custodial credit risk. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were correct the next business day.

C. Cash Held in Escrow with Trustee

The School had \$1,130,000 in cash held in escrow for a reserve related to the School's capital lease through the Montgomery County and Lucas County Port Authorities. This reserve is required to remain in place in full until all debt is repaid. This amount is not included in the "deposits" reported above.

D. Investments

As of June 30, 2018, the School the following investment:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	Standard & Poor's <u>Rating</u>	Percent of Total <u>Investments</u>
Fair value - Level One Inputs:				
Dayton Foundation	\$ 245,359	Less than three months	N/A	N/A

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School's recurring fair value measurements as of June 30, 2018. The School's investment, measured at fair value, is valued using quoted market prices (Level 1 inputs).

The School had \$245,359 invested with the Dayton Foundation which is not an eligible financial institution under Ohio Revised Code § 135.03.

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note</u>	
Cash on hand	\$ 40
Carrying amount of deposits	3,509,911
Cash held in escrow with trustee	1,130,000
Cash held in segregated accounts	<u>245,359</u>
Total	<u>\$ 4,885,310</u>

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Cash and investments per statement of net position

Business-type activities \$ 4,885,310

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018 consisted of accounts and intergovernmental grants and entitlements. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net position follows:

	<u>Amounts</u>
Accounts	\$ 5,796
Intergovernmental:	
State foundation	21,166
Title VI-B	17,941
Title II-A	17,155
Total	<u>\$ 62,058</u>

NOTE 6 - CAPITAL ASSETS

Capital assets for the fiscal year June 30, 2018, were as follows.

	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
	<u>June 30, 2017</u>			<u>June 30, 2018</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 824,870	\$ -	\$ -	\$ 824,870
Construction in progress	107,393	107,392	(214,785)	-
Total capital assets, not being depreciated	932,263	107,392	(214,785)	824,870
<i>Capital assets, being depreciated:</i>				
Land improvements	-	48,295	-	48,295
Building and improvements	7,811,389	214,785	-	8,026,174
Furniture, fixtures and equipment	160,680	61,688	-	222,368
Total capital assets, being depreciated	7,972,069	324,768	-	8,296,837
<i>Less: accumulated depreciation:</i>				
Land improvements	-	(635)	-	(635)
Building and improvements	(764,411)	(159,450)	-	(923,861)
Furniture and equipment	(116,921)	(19,102)	-	(136,023)
Total accumulated depreciation	(881,332)	(179,187)	-	(1,060,519)
Governmental activities capital assets, net	<u>\$ 8,023,000</u>	<u>\$ 252,973</u>	<u>\$ (214,785)</u>	<u>\$ 8,061,188</u>

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2018 were as follows. The long-term obligations at June 30, 2017 have been restated as described in Note 3.

	Restated Balance <u>06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/18</u>	Due Within <u>One Year</u>
Capital lease obligation payable	\$ 3,631,667	\$ -	\$ (260,000)	\$ 3,371,667	\$ 260,000
Net pension liability	114,486	-	(101,413)	13,073	-
Net OPEB liability	<u>43,352</u>	<u>-</u>	<u>(38,022)</u>	<u>5,330</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 3,789,505</u>	<u>\$ -</u>	<u>\$ (399,435)</u>	<u>\$ 3,390,070</u>	<u>\$ 260,000</u>

The School entered into a lease agreement with the Dayton-Montgomery County Port Authority during fiscal year 2011. The Dayton-Montgomery County Port Authority purchased a building and paid for renovations through the lease agreement.

There is no repayment schedule for the net pension liability or net OPEB liability. However, employer pension contributions are made from the general fund. For additional information related to the net pension liability and net OPEB liability, see Notes 12 and 13, respectively.

NOTE 8 - PURCHASED SERVICES

Purchased services include the following:

Professional and technical services	\$ 3,691,524
Property services	204,930
Travel milage/meeting expense	58,996
Communications	34,185
Utilities	81,723
Contracted craft or trade	119,749
Pupil transportation	<u>6,631</u>
Total purchased services	<u>\$ 4,197,738</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In a previous fiscal year, the School entered into capitalized lease for land and buildings and improvements. All leases meet the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been originally capitalized in the amount of \$4,579,035, which represents the present value of the future minimum lease payments at the time of acquisition. Principal payments in fiscal year 2018 totaled \$260,000.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The assets acquired through the capital lease are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Asset:			
Land	\$ 824,870	\$ -	\$ 824,870
Buildings and improvements	<u>3,304,677</u>	<u>(526,985)</u>	<u>2,777,692</u>
Total	<u>\$ 4,129,547</u>	<u>\$ (526,985)</u>	<u>\$ 3,602,562</u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2018:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 441,867
2020	429,233
2021	436,279
2022	428,846
2023	416,046
2024 - 2026	<u>2,199,129</u>
Total future minimum lease payments	4,351,400
Less: amount representing interest	<u>(979,733)</u>
Present value of future minimum lease payments	<u>\$ 3,371,667</u>

NOTE 10 - OPERATING LEASES

During a previous fiscal year, the School entered into a non-cancelable operating lease. The School made payments of \$17,916 during fiscal year 2018. The future minimum lease payments for these leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 17,916
2020	<u>17,916</u>
Total	<u>\$ 35,832</u>

NOTE 11 - 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 and natural disasters. During fiscal year 2018, the School participated in the Southwestern Ohio Educational Purchasing Council (Note 14) for liability, fleet, and property insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

There has been no significant reduction in insurance coverage since the prior fiscal year.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - The 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.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The School did not make any contractually required contribution to SERS for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, 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 projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS
Proportion of the net pension liability prior measurement date	0.00156420%
Proportion of the net pension liability current measurement date	0.00021880%
Change in proportionate share	-0.00134540%
Proportionate share of the net pension liability	\$ 13,073
Pension expense	\$ (15,428)

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - 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
Deferred outflows of resources	
Differences between expected and actual experience	\$ 560
Changes of assumptions	676
Difference between School contributions and proportionate share of contributions/ change in proportionate share	7,724
Total deferred outflows of resources	\$ 8,960
	SERS
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	\$ 65
Difference between School contributions and proportionate share of contributions/ change in proportionate share	56,279
Total deferred inflows of resources	\$ 56,344

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS
Fiscal Year Ending June 30:	
2019	\$ (14,438)
2020	(17,341)
2021	(15,301)
2022	(304)
Total	\$ (47,384)

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.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

For 2017, the 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 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent 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.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	\$ 18,142	\$ 13,073	\$ 8,827

NOTE 13 - DEFINED BENEFIT OPEB PLANS

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.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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.

The Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which 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* on the accrual basis of accounting.

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. 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.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 did not have a surcharge obligation.

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 did not make any contractually required contribution to SERS for fiscal year 2018.

Net OPEB Liability

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 and OPEB expense:

	SERS
Proportion of the net OPEB liability prior measurement date	0.00152092%
Proportion of the net OPEB liability current measurement date	0.00198600%
Change in proportionate share	0.00046508%
Proportionate share of the net OPEB liability	\$ 5,330
OPEB expense	\$ (9,741)

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

	SERS
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	\$ 14
Changes of assumptions	506
Difference between School contributions and proportionate share of contributions/ change in proportionate share	27,761
Total deferred inflows of resources	\$ 28,281

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

		SERS
Fiscal Year Ending June 30:		
2019	\$	(10,246)
2020		(10,246)
2021		(7,789)
 Total	 \$	 (28,281)

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.

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (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.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (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 Equity	22.50	4.75
International Equity	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	<u>100.00 %</u>	

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	\$ 6,437	\$ 5,330	\$ 4,453
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School's proportionate share of the net OPEB liability	\$ 4,325	\$ 5,330	\$ 6,660

**DAYTON REGIONAL STEM SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association - The Metropolitan Education Technology Association (META) is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice president and nine board members who represent the members of META. The board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The School paid META \$16,740 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

Southwestern Ohio Educational Purchasing Council - The School participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of 132 school districts and educational service centers in 18 counties. The purpose of the Council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative.

The Council exercises total control over the operations of the coalition including budgeting, appropriating, contracting and designating management. Each school district's degree of control is limited to its representation on the Council. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2018, the School paid \$22,958 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 15 - RELATED PARTY TRANSACTIONS

The School contracts with Wright State University to utilize certain personnel and other resources. During fiscal year 2018, the School paid \$3,253,651 to Wright State University for personnel (all teaching and administrative personnel are employees of Wright State University); pension and retirement benefits; supplies and purchased services. Six out of ten Board of Trustee members are from Wright State University.

The School entered into a guaranty agreement with the Wright State University Foundation, Inc. March 1, 2011 for the capital lease with the Dayton-Montgomery County Port Authority. The Wright State University Foundation, Inc. guarantees the full and prompt payment, when due, of the lease payments, not to exceed \$3,000,000. See Note 9 for further information.

NOTE 16 - CONTINGENCIES

A. Grants

The School received financial assistance from State agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2018.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - CONTINGENCIES - (Continued)

B. State Foundation Funding

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 a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2018. As a result of the review, the School recorded a receivable for the FTE adjustment at June 30, 2018.

NOTE 17 - AGREEMENT WITH WRIGHT STATE UNIVERSITY

On August 3, 2009, the School contracted with Wright State University (WSU) to utilize certain WSU personnel and other resources as agreed upon, to provide services and facilitate operation of the School. The term of the contract began on August 3, 2009 and will continue to remain in full force and effect upon the same terms and conditions for successive periods of one year.

WSU Personnel - WSU will hire personnel mutually agreeable to the School to carry out the School's activities. The specific terms of their compensation, the definition of their duties and the allocation of their time and responsibilities between the work of the School and other duties to WSU shall be determined (and may be changed) jointly by the School and WSU. WSU shall be reimbursed for the use of WSU Personnel.

Responsibility for and Compensation of Personnel - WSU is responsible for all payroll and employment taxes, and other customary employer duties and responsibilities for the personnel during the term of the agreement. WSU provides appropriate workers' compensation coverage for employees throughout the term of the agreement and further provided all employee benefits for the employees customarily provided to others in like positions at WSU.

Personnel Employed by WSU - The Personnel designated to provide services under the agreement shall remain employees of WSU and shall be subject to any employment agreements between the employees and WSU. WSU shall not be required to hire or retain personnel utilized by the School unless funding for such is approved and available to the School.

WSU Resources - The School may utilize certain resources of WSU for use in its activities upon mutual agreement with WSU. The School shall reimburse WSU, as mutually agreed upon, for any costs directly incurred as a result of the School's use of such resources. WSU may choose to offer the School fiscal support and in-kind contributions of support at its discretion.

School Property - Files, reports, articles, electronic records and other such materials created or developed by WSU employees while performing services for the School are and will remain the School's property.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 17 - AGREEMENT WITH WRIGHT STATE UNIVERSITY - (Continued)

Insurance - Insurance customarily carried by those in the operation of an educational institution shall be maintained by each party. To the extent permitted by law and provided that the parties receive reciprocal treatment, each party shall name the other as an additional insured. The parties agree to notify each other in writing within 10 days of loss coverage or material change in such policies.

Reimbursement for Personnel and Resources - The School will reimburse WSU for all costs specifically applicable to the School's use of personnel and resources provided by WSU under the agreement, unless WSU at its discretion chooses not to seek reimbursement. Such costs are to include those incurred for salaries, taxes, insurance, employee benefits, amounts reimbursed for any out-of-pocket expenses (including but not limited to travel authorized by the School) incurred by personnel that are specifically allocable to the activities of the School, and any others directly associated with the use of personnel and resources of WSU by the School in its operations. WSU shall not be required to hire or retain personnel utilized by the School unless funding for such is approved and available to the School.

Records and Invoicing - Both the School and WSU shall keep records quantifying the use of WSU personnel and resources subject to reimbursement under the agreement. On the first of each month, WSU shall invoice the School for the personnel and resources provided in the previous month under the agreement which is to include a detailed accounting of the costs to be reimbursed. The School shall have five business days to challenge, in writing, the costs allocated to it under the amount billed. Any dispute as to the amount due shall be settled by the parties. The parties shall review their records and invoices/payments on a periodic basis (but no less often than annually) and shall make such adjustments as the parties deem necessary by mutual agreement to reflect the actual use of WSU personnel and other resource by the School.

Payment of Invoice - Payment of invoices by the School shall be made by the fifteenth day of the month in which the invoice is received. Notwithstanding the forgoing, in the event WSU has funds in a restricted account that is allocated for use by the School, such funds are to be used to offset any amounts owed by the School to WSU for use of personnel and resources before the School may be required to make payment out of its operating funds. Restricted funds may not be used to offset amounts owed by the School until after the five day period for the School to challenge the invoice has lapsed for the month in which the invoice was sent reflecting such expense and the use of such funds by WSU for the payment of expenses shall be reflected in the monthly invoice sent to the School in the subsequent month.

Termination - Either party may terminate the agreement at any time by providing 90 days written notice to the other party. A comprehensive review will occur every two calendar years by WSU and the School to begin on May 1 of odd numbered years and to conclude with a decision to continue or discontinue the agreement by June 30th of those odd number years.

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**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.00021880%	0.00156420%	0.00139320%	0.00119600%	0.00119600%
School's proportionate share of the net pension liability	\$ 13,073	\$ 114,486	\$ 79,498	\$ 60,529	\$ 71,122
School's covered payroll	\$ 48,579	\$ 48,579	\$ 41,943	\$ 34,740	\$ 30,484
School's proportionate share of the net pension liability as a percentage of its covered payroll	26.91%	235.67%	189.54%	153.02%	233.33%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST SIX FISCAL YEARS (1)			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ 6,801	\$ 6,801	\$ 5,528
Contributions in relation to the contractually required contribution	<u>-</u>	<u>(6,801)</u>	<u>(6,801)</u>	<u>(5,528)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ -	\$ 48,579	\$ 48,579	\$ 41,942
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

(1) Fiscal year 2013 is the first year the School made contributions to SERS.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>
\$ 4,815	\$ 4,219
<u>(4,815)</u>	<u>(4,219)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 34,740	\$ 30,484
13.86%	13.84%

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
School's proportion of the net OPEB liability	0.0019860%	0.00152092%
School's proportionate share of the net OPEB liability	\$ 5,330	\$ 43,352
School's covered payroll	\$ 48,579	\$ 48,579
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	10.97%	89.24%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ 494	\$ 1,090
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>(494)</u>	<u>(1,090)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ -	\$ 48,579	\$ 48,579	\$ 41,942
Contributions as a percentage of covered payroll	0.00%	0.00%	1.02%	2.60%

(1) Information for OPEB contributions was not available before fiscal year 2015.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: 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.



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

Dayton Regional STEM School
Montgomery County
1724 Woodman Drive
Kettering, Ohio 45420

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Dayton Regional STEM School, Montgomery County, (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 July 18, 2019, wherein we noted that 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*.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

School's Response to Finding

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

July 18, 2019

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2018**

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

FINDING NUMBER 2018-001

Noncompliance

Ohio Rev. Code § 135.03, in part, states that any national bank, any bank doing business under authority granted by the superintendent of financial institutions, or any bank doing business under authority granted by the regulatory authority of another state of the United States, located in this state, is eligible to become a public depository. Additionally any federal savings association, any savings and loan association or savings bank doing business under authority granted by the superintendent of financial institutions, or any savings and loan association or savings bank doing business under authority granted by the regulatory authority of another state of the United States, located in this state, and authorized to accept deposits is eligible to become a public depository.

Eligible financial institutions under the above mentioned section does not include community foundations.

Additionally, **Ohio Rev. Code § 135.14(B)** states that the treasurer or governing board may invest or deposit any part or all of the interim moneys. The following classifications of obligations shall be eligible for such investment or deposit:

- (1) United States treasury bills, notes, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States.

Nothing in the classification of eligible obligations set forth in division (B)(1) of this section or in the classifications of eligible obligations set forth in divisions (B)(2) to (7) of this section shall be construed to authorize any investment in stripped principal or interest obligations of such eligible obligations.

- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- (3) Interim deposits in the eligible institutions applying for interim moneys as provided in section 135.08 of the Revised Code. The award of interim deposits shall be made in accordance with section 135.09 of the Revised Code and the treasurer or the governing board shall determine the periods for which such interim deposits are to be made and shall award such interim deposits for such periods, provided that any eligible institution receiving an interim deposit award may, upon notification that the award has been made, decline to accept the interim deposit in which event the award shall be made as though the institution had not applied for such interim deposit.
- (4) Bonds and other obligations of this state, or the political subdivisions of this state, provided that, with respect to bonds or other obligations of political subdivisions, all of the following apply:
 - a. The bonds or other obligations are payable from general revenues of the political subdivision and backed by the full faith and credit of the political subdivision.
 - b. The bonds or other obligations are rated at the time of purchase in the three highest classifications established by at least one nationally recognized standard rating service and purchased through a registered securities broker or dealer.
 - c. The aggregate value of the bonds or other obligations does not exceed twenty per cent of interim moneys available for investment at the time of purchase.

FINDING NUMBER 2018-001
(Continued)

- d. The treasurer or governing board is not the sole purchaser of the bonds or other obligations at original issuance.

No investment shall be made under division (B)(4) of this section unless the treasurer or governing board has completed additional training for making the investments authorized by division (B)(4) of this section. The type and amount of additional training shall be approved by the treasurer of state and may be conducted by or provided under the supervision of the treasurer of state.

- (5) No-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.03 of the Revised Code;
- (6) The Ohio subdivision's fund as provided in section 135.45 of the Revised Code;
- (7) Up to forty per cent of interim moneys available for investment in either of the following:
- (a) Commercial paper notes issued by an entity that is defined in division (D) of section 1705.01 of the Revised Code and that has assets exceeding five hundred million dollars, to which notes all of the following apply:
- (i) The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.
 - (ii) The aggregate value of the notes does not exceed ten per cent of the aggregate value of the outstanding commercial paper of the issuing corporation.
 - (iii) The notes mature not later than one hundred eighty days after purchase.
 - (iv) The investment in commercial paper notes of a single issuer shall not exceed in the aggregate five per cent of interim moneys available for investment at the time of purchase.
- (b) Bankers acceptances of banks that are insured by the federal deposit insurance corporation and that mature not later than one hundred eighty days after purchase.

Finally, **Ohio Rev. Code § 135.14(O)(2)** states that if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the auditor of state, the treasurer or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits pursuant to division (B)(3) of this section or interim deposits pursuant to section 135.145 of the Revised Code and approved by the treasurer of state, no-load money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section.

During Fiscal Year 2018, the School had \$245,359 invested with the Dayton Foundation which is not an allowable depository under Ohio Rev. Code § 135.03. Additionally, 45% of the account was invested in domestic and international equity investments, contrary to Ohio law. Finally, the School did not have a copy of its investment policy filed with the Auditor of State's office.

The School should revisit its depositories to verify that they are in compliance with the Ohio law. Additionally, the School should file a copy of its investment policy with the Auditor of State before making any investments and all investments should be conservative in nature and follow Ohio Rev. Code § 135.14(B). Failure to do so could result in the School investing its money in highly risky/volatile investments that lead to significant investment losses due to market fluctuations.

Officials' Response: Administration will work with the audit team, the Dayton Foundation, and legal counsel to find a solution to satisfy all parties in an attempt to get this report level comment removed from the report.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 JUNE 30, 2018**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Ohio Rev. Code § 135.03	Not corrected	The School still had 45% of the account balance with Dayton Foundation invested in domestic and international equity accounts.
2017-002	Financial Statement Misstatements	Corrected	All financial statement errors were corrected for the current audit period.

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OHIO AUDITOR OF STATE KEITH FABER



DAYTON REGIONAL STEM SCHOOL

MONTGOMERY 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
AUGUST 13, 2019**