DAYTON SMART ELEMENTARY SCHOOL
DBA
DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2018

TABLE OF CONTENTS

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

Dayton SMART Bilingual Academy
Montgomery County
601 South Keowee Street
Dayton, Ohio 45410

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Dayton SMART Bilingual Academy, 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 SMART Bilingual Academy, Montgomery County, Ohio, as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the School had a deficit unrestricted net position at June 30, 2018. Note 16 also describes management's plans to address the deficit net position. Our opinion is unmodified regarding this matter.

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

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 June 5, 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

Keith Faber
Auditor of State
Columbus, Ohio

June 5, 2019

As management of Dayton SMART Bilingual Academy (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- Total net position of the School increased $116,903 during the fiscal year. Ending net position of the School was negative $1,622,094 compared with negative $1,738,997 at June 30, 2017.

- Total assets decreased by $57,166 and total liabilities decreased by $117,064 from the prior fiscal year end.

- The School's operating loss for fiscal year 2018 was $89,545.

- Total revenues decreased by $227,249 compared to those reported for the prior fiscal year while total expenses decreased by $649,014 during the same period.

Using this Annual Financial Report

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

Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position

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

This statement reports the School's net position; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The statement of revenues, expenses and change in net position reports the change in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows of resources of resources by $1.6 million according to the Statement of Net Position at the close of the most recent fiscal year. The negative net position can be attributed to GASB 68 and GASB 75 and the recording of a net pension and other postemployment benefits liability of $1.4 million at year end.

Table 1 provides a summary of the School's net position for 2018 and 2017:

Table 1
Net Position at Year End

		Restated
Assets:	**2018**	**2017**
Current and Other Assets	$ 46,060	$ 43,899
Capital Assets, Net	656,633	715,960
Total Assets	702,693	759,859
Deferred Outflows of Resources	909,355	751,393
Liabilities:		
Current Liabilities	1,731,301	1,694,723
Long-Term Liabilities	1,401,884	1,555,526
Total Liabilities	3,133,185	3,250,249
Deferred Inflows of Resources	100,957	-
Net Position:		
Net Investment in Capital Assets	(58,583)	(34,243)
Restricted	166	166
Unrestricted	(1,563,677)	(1,704,920)
Total Net Position	$ (1,622,094)	$ (1,738,997)

Capital Assets, Net and Net Investment in Capital Assets both decreased significantly in comparison with the prior fiscal year-end. This decrease represents the amount of current year depreciation expense.

The net pension liability (NPL) is the largest single liability 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 OBEP liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

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

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($1.5) million to ($1.7) million.

The net pension and net OPEB liabilities both decreased significantly in comparison with the prior fiscal year-end. These decreases are primarily the result of changes in benefit terms, changes in actuarial assumptions, and greater than expected returns on pension plan investments.

Financial Analysis

The total net position reported for fiscal year 2018 increased by $116,903. Table 2 provides a summary of the School's change in net position for 2018 and 2017:

This page intentionally left blank

Table 2
Changes in Net Position

	2018	2017
Operating Revenues:		
Unrestricted Grants-in-Aid	$ 751,624	$ 949,287
Restricted Grants-in-Aid	115,810	133,793
Total Operating Revenues	867,434	1,083,080
Operating Expenses:		
Salaries	421,634	528,091
Fringe Benefits	(51,574)	386,214
Purchased Services	466,138	550,543
Materials and Supplies	38,922	52,799
Depreciation	59,327	61,742
Other	22,532	27,274
Total Operating Expenses	956,979	1,606,663
Operating Loss	(89,545)	(523,583)
Nonoperating Revenues (Expenses)		
Federal and State Grants	242,433	253,218
Other Nonoperating Revenues	84	902
Interest Expense	(36,069)	(35,399)
Total Nonoperating Revenues (Expenses)	206,448	218,721
Change in Net Position	116,903	(304,862)
Net Position, Beginning of Year	(1,738,997)	N/A
Net Position, End of the Year	$ (1,622,094)	$ (1,738,997)

Operating Revenues and Federal and State Grants both decreased in fiscal year 2018 compared with the prior fiscal year primarily due to a decrease in enrollment from 124 students in fiscal year 2017 to 94 students in fiscal year 2018.

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $1,623 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $36,789. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	$	956,979
Negative OPEB expense under GASB 75		36,789
2018 contractually required contribution		2,251
Adjusted 2018 operating expenses		996,019
Total 2017 operating expenses under GASB 45		1,606,663
Decrease in operating expenses not related to OPEB	$	(610,644)

This decrease in operating expenses is primarily the result of a significant decrease in pension expense from $327,439 in fiscal year 2017 to negative $110,868 in fiscal year 2018. This decrease is primarily the result of changes in benefit terms, changes in actuarial assumptions, and greater than expected returns on pension plan investments.

Capital Assets

At the end of fiscal year 2018, the School had $656,633 invested in Capital Assets, Net, a decrease of $59,327 in comparison with the prior fiscal year. This decrease represents the amount of current year depreciation. The School had no additions during the current year. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's notes payable balance was $1.1 million, a decrease of $80,927 in comparison with the prior fiscal year-end. This decrease represents principal payments of $105,927 offset by additions of $25,000. See Note 6 of the basic financial statements for additional details.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Dayton SMART Bilingual Academy and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Dayton SMART Bilingual Academy, 601 South Keowee Street, Dayton, OH 45410.

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 9,518
Intergovernmental Receivable	33,200
Security Deposit	3,342
Total Current Assets	46,060
Noncurrent Assets	
Capital Assets, Net	656,633
Total Noncurrent Assets	656,633
Total Assets	702,693
Deferred Outflows of Resources:	
Pension	853,297
OPEB	56,058
Total Deferred Outflows of Resources	909,355
Liabilities:	
Current Liabilities	
Accounts Payable	605,326
Accrued Wages and Benefits Payable	30,853
Intergovernmental Payable	7,994
Notes Payable	1,087,128
Total Current Liabilities	1,731,301
Long-Term Liabilities:	
Net Pension Liability	1,160,251
Net OPEB Liability	241,633
Total Long-Term Liabilities	1,401,884
Total Liabilities	3,133,185
Deferred Inflows of Resources:	
Pension	64,975
OPEB	35,982
Total Deferred Inflows of Resources	100,957
Net Position:	
Net Investment in Capital Assets	(58,583)
Restricted	166
Unrestricted	(1,563,677)
Total Net Position	$ (1,622,094)

See accompanying notes to the basic financial statements.

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

Operating Revenues:	
Unrestricted Grants in Aid	$ 751,624
Restricted Grants in Aid	115,810
Total Operating Revenues	867,434
Operating Expenses:	
Salaries	421,634
Fringe Benefits	(51,574)
Purchased Services	466,138
Materials and Supplies	38,922
Depreciation	59,327
Other	22,532
Total Operating Expenses	956,979
Operating Loss	(89,545)
Non-Operating Revenues (Expenses):	
Federal and State Grants	242,433
Other Non-Operating Revenue	84
Interest Expense	(36,069)
Total Non-Operating Revenues (Expenses)	206,448
Change in Net Position	116,903
Net Position Beginning of Year, As Restated	(1,738,997)
Net Position End of Year	$ (1,622,094)

See accompanying notes to the basic financial statements.

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

Cash Flows from Operating Activities:	
Received from Foundation Payments	$ 762,686
Received from Disadvantaged Pupil Impact Aid and Transportation	115,810
Payments to Suppliers for Goods and Services	(376,869)
Payments to Employees for Services and Benefits	(600,291)
Payments to Other	(24,788)
Net Cash Used for Operating Activities	(123,452)
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	219,894
Received from Loan	25,000
Other Non-Operating Receipts	84
Principal Paid on Loan	(70,940)
Interest Paid on Loan	(14,060)
Net Cash Provided by Noncapital Financing Activities	159,978
Cash Flows from Capital and Related Financing Activities:	
Principal Paid on Loans/Note	(34,987)
Interest Paid on Loans/Note	(22,009)
Net Cash Used for Capital and Related Financing Activities	(56,996)
Net Decrease in Cash and Cash Equivalents	(20,470)
Cash and Cash Equivalents at Beginning of Year	29,988
Cash and Cash Equivalents at End of Year	$ 9,518

See accompanying notes to the basic financial statements.

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(89,545)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		59,327
Changes in Assets and Liabilities:		
Intergovernmental Receivable		(1,092)
Prepaid Items		1,000
Accounts Payable		124,645
Accrued Wages and Benefits Payable		(1,336)
Intergovernmental Payable		(5,804)
Net Pension Liability and Deferred Outflows & Deferred Inflows - Pension		(171,607)
Net OPEB Liability and Deferred Outflows & Deferred Inflows - OPEB		(39,040)
Net Cash Used for Operating Activities	$	(123,452)

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Dayton Smart Bilingual Academy (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through five. The School, which is part of the State's education program, is independent of any school district and nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Ohio Council of Community Schools (the Sponsor) commencing July 1, 2013 and expiring on June 30, 2016. The contract was renewed for a term commencing on July 1, 2016 and expiring on June 30, 2021. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School paid the Sponsor a 3% sponsorship fee based on State Foundation revenue, which totaled $25,628 in fiscal year 2018. The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 12).

The School operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 4 non-certified and 6 certificated full time teaching personnel who provide services to 94 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code Section 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 Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore, no budgetary information is presented in the financial statements.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Land Improvements	10 years
Building and Improvements	25 years
Furniture, Fixtures, and Equipment	3-5 years
Vehicles	7 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions and other postemployment benefits (OPEB). These deferred outflows of resources related to pensions and OPEB are explained in Note 8 and Note 9.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. These deferred inflows of resources related to pensions and OPEB are explained in Note 8 and Note 9.

G. Cash and Cash Equivalents

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

H. Compensated Absences

Vacation and sick leave benefits are not carried forward to future fiscal years. The School does not pay sick leave benefits upon termination or retirement.

I. Pensions/Other Postemployment Benefits (OPEB)

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

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. The School applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position is available.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Operating Revenues and Expenses

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

L. Estimates

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

NOTE 3 – DEPOSITS

At June 30, 2018, the carrying amount of the School's deposits was $9,518 and the bank balance was $25,226. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

All receivables are considered collectible in full. A summary of intergovernmental receivables follows:

Funding Source	Amount
Federal Grants:	
Food Service	$ 9,194
Title I	13,345
Retirement System Overpayment	10,661
Total Intergovernmental Receivables:	$ 33,200

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Land Improvements	$ 23,500	$ -	$ -	$ 23,500
Building Improvements	717,087	-	-	717,087
Furniture, Fixtures, and Equipment	24,369	-	-	24,369
Vehicles	156,108	-	-	156,108
Total Capital Assets	921,064	-	-	921,064
Less Accumulated Depreciation:				
Land Improvements	(8,225)	(2,350)	-	(10,575)
Building Improvements	(99,849)	(28,684)	-	(128,533)
Furniture, Fixtures, and Equipment	(18,976)	(1,555)	-	(20,531)
Vehicles	(78,054)	(26,738)	-	(104,792)
Total Accumulated Depreciation	(205,104)	(59,327)	-	(264,431)
Capital Assets, Net	$ 715,960	$ (59,327)	$ -	$ 656,633

NOTE 6 – LONG TERM OBLIGATIONS

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Mangen Note	$ 791,074	$ 25,000	$ (40,085)	$ 775,989	$ 775,989
Hubert Note	357,079	-	(45,940)	311,139	311,139
Bus Loans	19,902	-	(19,902)	-	-
Total	$ 1,168,055	$ 25,000	$ (105,927)	$ 1,087,128	$ 1,087,128

In fiscal year 2014, the School entered into a promissory note with Joann and Ed Hubert Family Foundation for operations. The note was approved for $450,000. The original note carried an interest rate of 3% and a maturity date of June 30, 2015. The School renegotiated the terms of the note, extending the maturity date to June 30, 2019. The note carries an interest rate of 4%.

NOTE 6 – LONG TERM OBLIGATIONS (continued)

In fiscal year 2014, the School entered into a promissory note with Mangen Family Foundation for operations and capital improvements. The note carried an interest rate of 0% and a maturity date of June 30, 2015. In fiscal year 2017, the School drew additional funds on the note and renegotiated the terms, extending the maturity dated to June 30, 2018. The School drew and repaid $25,000 during fiscal year 2018. The School renegotiated the terms of the note, extending the maturity date to June 30, 2019. The note carries an interest rate of 3%.

On October 30, 2014, the School borrowed $77,640 to finance the purchase of a school bus. The note carried an interest rate of 5.50% and a maturity date of October 30, 2017.

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

Fiscal Year Ended June 30:	Principal	Interest	Total
2019	1,087,128	34,844	1,121,972

NOTE 7 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School contracted with McGowan Governmental UW for general liability, property insurance, educational errors and omissions insurance.

Coverages are as follows:

Building and Contents ($5,000 deductible)	$ 4,336,300
Educational Errors and Omissions	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in the past three years.

Worker's Compensation

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Age and service requirements for retirement are as follows:

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

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

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

On each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. This cost-of-living adjustment (COLA) shall not be less than 0% nor greater than 2.5%. COLA's have been suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.50 percent and .50 percent was allocated to the Health Care Fund.

The School's contractually required pension contribution to SERS was $13,951 for fiscal year 2018 of which the entire amount has been paid.

Plan Description - State Teachers Retirement System (STRS)

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $46,788 for fiscal year 2018 of which the entire amount has been paid.

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

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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$ 175,127	$ 985,124	$ 1,160,251
Proportion of the Net Pension Liability-2018	0.00293110%	0.00414698%	
Proportion of the Net Pension Liability-2017	0.00345780%	0.00310766%	
Change in Proportionate Share	-0.00052670%	0.00103932%	
Pension Expense	$ 31,223	$ (142,091)	$ (110,868)

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 7,537	$ 38,041	$ 45,578
Changes of assumptions	9,056	215,457	224,513
Changes in proportionate share	65,991	456,476	522,467
School contributions subsequent to the measurement date	13,951	46,788	60,739
Total Deferred Outflows of Resources	$ 96,535	$ 756,762	$ 853,297
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$ 7,940	$ 7,940
Net difference between projected and actual earnings on pension plan investments	831	32,510	33,341
Changes in proportionate share	23,694	-	23,694
Total Deferred Inflows of Resources	$ 24,525	$ 40,450	$ 64,975

$60,739 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$45,255	$284,512	$329,767
2020	20,773	187,261	208,034
2021	(5,950)	119,551	113,601
2022	(2,019)	78,200	76,181
Total	$58,059	$669,524	$727,583

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.0 percent
Future Salary Increases, including inflatio	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$243,030	$175,127	$118,244

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

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

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

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

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

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	$1,412,142	$985,124	$625,426

Changes Between Measurement Date and Report Date The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

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

NOTE 9 – 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.

NOTE 9 – 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.

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.

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School's surcharge obligation was $1,734.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was $2,251 for fiscal year 2018. Of this amount $1,753 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

Net OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability-Prior Measurement Date	0.0035116%	0.00310766%	
Proportion of the Net OPEB Liability-Current Measurement Date	0.0029747%	0.00414698%	
Change in Proportionate Share	-0.0005369%	0.0010393%	
Proportionate Share of the Net OPEB Liability	$79,833	$161,800	$241,633
OPEB Expense	$1,466	($38,255)	($36,789)

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

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ -	$ 9,340	$ 9,340
Difference between School contributions and proportionate share of contributions	-	44,467	44,467
School contributions subsequent to the measurement date	2,251	-	2,251
Total Deferred Outflows of Resources	$ 2,251	$ 53,807	$ 56,058
Deferred Inflows of Resources			
Changes of assumptions	$ 7,576	$ 13,034	$ 20,610
Difference between School contributions and proportionate share of contributions	8,245	-	8,245
Net difference between projected and actual earnings on OPEB plan investments	211	6,916	7,127
Total Deferred Inflows of Resources	$ 16,032	$ 19,950	$ 35,982

$2,251 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (5,785)	$ 8,465	$ 2,680
2020	(5,785)	8,465	2,680
2021	(5,126)	8,465	3,339
2022	664	8,462	9,126
Total	$ (16,032)	$ 33,857	$ 17,825

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

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.

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.

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

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

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

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	$96,409	$79,833	$66,701

	1% Decrease (6.5% decreasing to 4.0 percent)	Current Trend Rate (7.5% decreasing to 5.0 percent)	1% Increase (8.5% decreasing to 6.0 percent)
School's proportionate share of the net OPEB liability	$64,779	$79,833	$99,758

Actuarial Assumptions - STRS

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

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

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

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

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

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

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

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

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

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

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

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

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

NOTE 9 – DEFINED BENEFIT OPEB PLANS (continued)

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's proportionate share of the net pension liability	$217,214	$161,800	$118,005

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net pension liability	$112,412	$161,800	$226,801

NOTE 10 – EMPLOYEE BENEFITS

Insurance Benefits

The School provides life insurance to all employees through a private carrier. Coverage in the amount of $10,000 is provided to all certified and non-certified employees. Health, Dental and Vision insurance coverage is provided through Medical Mutual (health) and Guardian Insurance (dental and vision).

NOTE 11 – PURCHASED SERVICES

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

Health Services	$ 5,299
Management Services	95,723
Other Professional and Technical Services	207,313
Repairs and Maintenance Services	18,422
Garbage Removal and Cleaning	25,370
Other Property Services	6,003
Travel and Meeting Expense	2,695
Postage	278
Advertising	271
Utilities	33,663
Contracted Food Services	71,101
Total	$ 466,138

NOTE 12 – CONTRACTED FISCAL SERVICES

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

1. Financial Management Services
2. Treasurer/Accounting Services
3. CCIP Administration

The School made $23,692 in payments to M&A during fiscal year 2018 and had a liability for services of $499,110 as of June 30, 2018 which is included as part of accounts payable. In addition, as disclosed in Note 6, the School had $775,989 of outstanding capital and operating notes with the Mangen Family Foundation as of June 30, 2018. These notes carry a 3% interest rate.

NOTE 13 - CONTINGENCIES

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

State Funding - 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 and determined the School was overpaid by $1,503. This amount is reported as intergovernmental payable on the statement of net position.

Litigation - The School is not party to any legal proceedings.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association (META)

The School was a participant in the Metropolitan Educational Technology Association (META). 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 six 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 Association including budgeting, appropriating, contracting and designating management. Each School's degree of control is limited to its representation on the Board. The School paid META $5,827 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.

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES

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

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

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

Net OPEB Liability	
Net Position June 30, 2017	(1,478,400)
Adjustments:	
Net OPEB Liability	(262,220)
Deferred Outflow - Payments Subsequent to Measurement Date	1,623
Restated Net Position June 30, 2017	(1,738,997)

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

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

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

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

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

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

Dayton SMART Bilingual Academy (DSBA) began operations in fiscal year 2014 with loan support from private foundations since financial assistance was not available from the normal State / Federal start-up grants. These loans enabled DSBA to purchase and renovate the current School facility and provide gap funding for ongoing operations since State Foundation payments were not adequate to cover the high-quality instruction program provided to DSBA students during fiscal year 2014.

At June 30, 2018, the Academy had a deficit unrestricted net position of $(1,563,677). This negative net position is primarily the result of the School's net pension and OPEB liabilities, as reported by the pension systems. Fortunately, the School's Management Team has experience with starting Ohio community schools without the benefit of State/Federal start-up grants and has developed a comprehensive long-range plan to eliminate the deficit balance.

The Management's plan includes four primary areas of focus: (1) grow current student enrollment, (2) continue return-on investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. The Management Team is succeeding in making progress in each of these four priority areas. The School's enrollment, although decreased in FY18, improved again in FY19, the use of ROI budgeting is in place for all spending requests, expenditures are evaluated for impact on student learning growth prior to approval and internal auditing is conducted on a quarterly basis to ensure continued process improvements. The DSBA Team (Board, Management, Teachers and Staff) will continue directing a significant amount of time and energy toward making stronger family connections to expand the awareness of the School's high academic performance and grow future student enrollment. In addition, financial planning will continue to focus on ROI confirmation for all purchases, trimming costs through process improvements and continued spending restrictions for any purchases not directly aligned to the School's instruction program.

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

During fiscal year 2018, the School remained current on all outstanding payables with the exception of its Fiscal Management Company, Mangen & Associates (M&A) and its Operator, Miniya Academies. The amount owed to M&A at June 30, 2018 included reimbursements for payments made by M&A to vendors on behalf of DSBA for continued school start-up purchases and contracted service fees. The objective for fiscal year 2019 through 2022 is to pay off a portion of the amount owed to M&A, the Mangen Family Foundation and the Hubert Family Foundation when cash flow is adequate to cover these payments while leaving enough cash to sustain a high-quality instruction program for DSBA students. The School's Board adopted a five-year balanced budget for FY19-FY23 which includes a plan for the sustaining payments toward the loan balance to the Mangen Family Foundation and the Hubert Family Foundation and the M&A outstanding payable.

The long-term objective is to build an unencumbered cash reserve equal to three months of core operating expenditures to meet ongoing cash flow requirements without the need for an outside loan or any philanthropic contributions.

REQUIRED SUPPLEMENTARY INFORMATION

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

LAST FOUR FISCAL YEARS (1) *

	2018	2017	2016	2015
School's Proportion of the Net Pension Liability	0.00293110%	0.00345780%	0.00183830%	0.00156500%
School's Proportionate Share of the Net Pension Liability	$ 175,127	$ 253,079	$ 104,895	$ 79,204
School's Covered Payroll	$ 84,325	$ 107,196	$ 56,137	$ 45,467
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	207.68%	236.09%	186.86%	174.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%

(1) Information prior to 2015 is not available.

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

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

LAST FOUR FISCAL YEARS (1) *

	2018	2017	2016	2015
School's Proportion of the Net Pension Liability	0.00414698%	0.00310766%	0.00294431%	0.00270348%
School's Proportionate Share of the Net Pension Liability	$ 985,124	$ 1,040,227	$ 813,721	$ 657,580
School's Covered Payroll	$ 445,992	$ 314,348	$ 310,503	$ 295,471
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	220.88%	330.92%	262.07%	222.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%

(1) Information prior to 2015 is not available.

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

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
Contractually Required Pension Contribution	$ 13,951	$ 11,806	$ 15,007	$ 7,399	$ 6,302
Contributions in Relation to the Contractually Required Pension Contribution	13,951	11,806	15,007	7,399	6,302
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 103,342	$ 84,325	$ 107,196	$ 56,137	$ 45,467
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%

(1) Fiscal year 2014 was School's first year of operation

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
Contractually Required Pension Contribution	$ 46,788	$ 62,439	$ 44,009	$ 43,470	$ 38,411
Contributions in Relation to the Contractually Required Pension Contribution	46,788	62,439	44,009	43,470	38,411
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 334,196	$ 445,992	$ 314,348	$ 310,503	$ 295,471
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%

(1) Fiscal year 2014 was School's first year of operation

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

LAST TWO FISCAL YEARS (1) *

	2018	2017
School's Proportion of the OPEB Liability	0.00297470%	0.00351160%
School's Proportionate Share of the OPEB Liability	$ 79,833	$ 100,094
School's Covered Payroll	$ 84,325	$ 107,196
School's Proportionate Share of the OPEB Liability as a Percentage of its Covered Payroll	94.67%	93.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

LAST TWO FISCAL YEARS (1) *

	2018	2017
School's Proportion of the OPEB Liability	0.00414698%	0.00310766%
School's Proportionate Share of the OPEB Liability	$ 161,800	$ 166,198
School's Covered Payroll	$ 445,992	$ 314,348
School's Proportionate Share of the OPEB Liability as a Percentage of its Covered Payroll	36.28%	52.87%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

SCHEDULE OF SCHOOL'S OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
Contractually Required OPEB Contribution (2)	$ 2,251	$ 1,623	$ 1,809	$ 1,449	$ 871
Contributions in Relation to the Contractually Required OPEB Contribution	2,251	1,623	1,809	1,449	871
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 103,342	$ 84,325	$ 107,196	$ 56,137	$ 45,467
OPEB Contributions as a Percentage of Covered Payroll	2.18%	1.92%	1.69%	2.58%	1.92%

(1) Fiscal year 2014 was School's first year of operation
(2) Includes Surcharge

See accompanying notes to the required supplementary information

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

SCHEDULE OF SCHOOL'S OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
Contractually Required OPEB Contribution	$ -	$ -	$ -	$ -	$ 2,955
Contributions in Relation to the Contractually Required OPEB Contribution	-	-	-	-	2,955
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 334,196	$ 445,992	$ 314,348	$ 310,503	$ 295,471
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%

(1) Fiscal year 2014 was School's first year of operation

See accompanying notes to the required supplementary information

Net Pension Liability

School Employees Retirement System

Changes in benefit terms:

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

Changes in assumptions:

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

State Teachers Retirement System

Changes in benefit terms:

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

Changes in assumptions:

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

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

Net OPEB Liability

School Employees Retirement System

Changes in benefit terms:

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

Changes in Assumptions:

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

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

State Teachers Retirement System

Changes in benefit terms:

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

Changes in Assumptions:

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

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

OHIO AUDITOR OF STATE
KEITH FABER

One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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

Dayton SMART Bilingual Academy
Montgomery County
601 South Keowee Street
Dayton, Ohio 45410

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Dayton SMART Bilingual Academy, 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 June 5, 2019, wherein we noted the School reported a negative net position. We also 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

June 5, 2019

OHIO AUDITOR OF STATE
KEITH FABER

DAYTON SMART ELEMENTARY SCHOOL DBA DAYTON BILINGUAL ACADEMY

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
JUNE 25, 2019