MADISONVILLE SMART ELEMENTARY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

MADISONVILLE SMART ELEMENTARY
HAMILTON COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT

Madisonville Smart Elementary
Hamilton County
4324 Homer Avenue
Cincinnati, Ohio 45227

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Madisonville Smart Elementary, Hamilton 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madisonville Smart Elementary, Hamilton County, Ohio, as of June 30, 2018, and the changes in its financial position and its cash flows thereof 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 15 to the financial statements, during fiscal year 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*. Also as discussed in Note 16 to the financial statements, as of June 30, 2018, the School reported a negative net position of ($758,213), exclusive of pension and OPEB related accounts. Note 16 also describes management's evaluation of the events and conditions and their plan to address the deficit in net position. Also, as discussed in Note 17 to the financial statements, St. Aloysius (sponsor) placed the School's Board on probation as of September 7, 2018 as a result of low enrollment and expenses continuing to exceed revenues. Note 17 describes management's evaluation of the events and conditions and their plan to address the low enrollment and expenses exceeding revenues. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2019on 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
March 5, 2019

As management of the Madisonville SMART Elementary, formerly the Cincinnati College Preparatory Academy - East (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 $835,007 during the fiscal year. Ending net position of the School was negative $3,318,067 compared with negative $4,153,074 at June 30, 2017.

- Total assets decreased by $87,050 and total liabilities decreased by $1,066,803 from the prior fiscal year end.

- The School's operating income for fiscal year 2018 was $399,520.

- Total revenues decreased by $548,259 and total expenses decreased by $1,541,270 compared to those reported for the prior fiscal year.

Using this Annual Financial Report

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

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

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

The statement of net position 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 changes 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

Table 1 provides a summary of the School's net position at June 30, 2018 compared to prior fiscal year.

Table 1
Net Position at Year End

	2018	Restated 2017
Assets:		
Current and Other Assets	$ 105,548	$ 161,335
Capital Assets, Net	571,966	603,229
Total Assets	677,514	764,564
Deferred Outflows of Resources	562,442	535,274
Liabilities:		
Current Liabilities	1,071,777	1,371,019
Noncurrent Liabilities	2,824,237	3,626,804
Total Liabilities	3,896,014	4,997,823
Deferred Inflows of Resources	662,009	455,089
Net Position:		
Net Investment in Capital Assets	208,016	231,857
Unrestricted	(3,526,083)	(4,384,931)
Total Net Position	$ (3,318,067)	$ (4,153,074)

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 is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from negative $3.6 million to negative $4.2 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 $835,007. Table 2 shows the change in net position for the fiscal year ended June 30, 2018 compared to prior fiscal year.

This space intentionally left blank

Table 2
Changes in Net Position

	2018	Restated 2017
Operating Revenues:		
Unrestricted Grants-in-Aid	$ 1,097,194	$ 1,534,021
Restricted Grants-in-Aid	89,960	134,134
Total Operating Revenues	1,187,154	1,668,155
Operating Expenses:		
Salaries and Wages	604,411	939,551
Fringe Benefits	(799,527)	229,920
Purchased Services	815,696	1,026,888
Materials and Suppilies	55,374	69,437
Depreciation	31,263	42,305
Other	80,417	19,825
Total Operating Expenses	787,634	2,327,926
Operating Income (Loss)	399,520	(659,771)
Nonoperating Revenues and Expenses		
Federal and State Grants	431,510	484,331
Donations and Contributions	1,125	17,371
Other Nonoperating Revenues	2,852	65
Interest Expense	(10,776)	(11,754)
Interest Expense Forgiven	10,776	11,754
Total Nonoperating Revenues and Expenses	435,487	501,767
Change in Net Position	835,007	(158,004)
Net Position, Beginning of Year, Restated	(4,153,074)	N/A
Net Position, End of the Year	$ (3,318,067)	$ (4,153,074)

Operating Revenues and Federal and State Grants revenue both decreased significantly in comparison with the prior fiscal year. These decreases are primarily the result of a decrease in student enrollment from 211 in fiscal year 2017 to 142 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 $1,733 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 $82,974. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 operating expenses under GASB 75	$	787,634
Negative pension expense under GASB 75		82,974
2018 contractually required contribution		1,587
Adjusted 2018 operating expenses		872,195
Total 2017 operating expenses under GASB 45		2,327,926
Decrease in operating expenses not related to OPEB	$	(1,455,731)

This decrease in operating expenses is primarily the result of a significant decrease in pension expense from $116,182 in fiscal year 2017 to negative $818,557 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 $571,966 invested in Capital Assets, Net, a decrease of $31,263 in comparison with the prior fiscal year. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's notes payable balance was $363,950, the same amount reported one year ago. 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 Madisonville SMART Elementary 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 Madisonville SMART Elementary, 4324 Homer Ave., Cincinnati, Ohio 45227.

MADISONVILLE SMART ELEMENTARY
HAMILTON COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

Assets:		
Current Assets		
Cash and Cash Equivalents	$	30,217
Intergovernmental Receivables		73,982
Accounts Receivable		108
Prepaid Items		1,241
Total Current Assets		105,548
Noncurrent Assets		
Capital Assets, Net of Accumulated Depreciation		571,966
Total Noncurrent Assets		571,966
Total Assets	$	677,514
Deferred Outflows of Resources:		
Pension	$	545,367
OPEB		17,075
Total Deferred Outflows of Resources	$	562,442
Liabilities:		
Current Liabilities		
Accounts Payable	$	972,916
Accrued Wages and Benefits Payable		52,574
Intergovernmental Payable		10,237
Accrued Interest Payable		36,050
Total Current Liabilities		1,071,777
Noncurrent Liabilities:		
Notes Payable		363,950
Net Pension Liability		2,023,855
Net OPEB Liability		436,432
Total Noncurrent Liabilities		2,824,237
Total Liabilities	$	3,896,014
Deferred Inflows of Resources:		
Pension	$	579,576
OPEB		82,433
Total Deferred Inflows of Resources	$	662,009
Net Position:		
Net Investment in Capital Assets	$	208,016
Unrestricted		(3,526,083)
Total Net Position	$	(3,318,067)

See accompanying notes to the basic financial statements.

MADISONVILLE SMART ELEMENTARY
HAMILTON COUNTY

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

Operating Revenues:	
Unrestricted Grants-in-Aid	$ 1,097,194
Restricted Grants-in-Aid	89,960
Total Operating Revenues	1,187,154
Operating Expenses:	
Salaries and Wages	604,411
Fringe Benefits	(799,527)
Purchased Services	815,696
Materials and Supplies	55,374
Depreciation	31,263
Other	80,417
Total Operating Expenses	787,634
Operating Income	399,520
Non-Operating Revenues (Expenses):	
Federal and State Grants	431,510
Donations and Contributions	1,125
Other Non-Operating Revenues	2,852
Interest Expense	(10,776)
Interest Expense Forgiven	10,776
Total Non-Operating Revenues (Expenses)	435,487
Change in Net Position	835,007
Net Position Beginning of Year, As Restated	(4,153,074)
Net Position End of Year	$ (3,318,067)

See accompanying notes to the basic financial statements.

MADISONVILLE SMART ELEMENTARY
HAMILTON COUNTY

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

Cash Flows from Operating Activities:	
Received from State of Ohio	$ 1,181,390
Payments to Employees for Services and Benefits	(841,801)
Payments to Suppliers for Goods and Services	(764,722)
Payments to Others	(69,790)
Net Cash Used for Operating Activities	(494,923)
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	430,115
Received from Donations and Contributions	1,125
Received from Other	2,852
Net Cash Provided by Noncapital Financing Activities	434,092
Net Decrease in Cash and Cash Equivalents	(60,831)
Cash and Cash Equivalents at Beginning of Year	91,048
Cash and Cash Equivalents at End of Year	$ 30,217

See accompanying notes to the basic financial statements.

MADISONVILLE SMART ELEMENTARY
HAMILTON COUNTY

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

Reconciliation of Operating Income to Net Cash Used for Operating Activities:		
Operating Income	$	399,520
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:		
Depreciation		31,263
Changes in Assets and Liabilities:		
Accounts Receivable		(108)
Prepaid Items		(1,241)
Intergovernmental Receivable		(2,300)
Accounts Payable		117,468
Accrued Wages and Benefits		(41,313)
Intergovernmental Payable		(11,447)
Net Pension Liability and Related Deferrals		(902,204)
Net OPEB and Related Deferrals		(84,561)
Net Cash Used for Operating Activities	$	(494,923)

Schedule of Non-Cash Activities:
During fiscal year 2018, interest forgiven on notes payable totaled $10,776.

See accompanying notes to the basic financial statements.

1. Description of the School and Reporting Entity:

Madisonville SMART Elementary, formerly Cincinnati College Preparatory Academy East (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through sixth grade through customizing learning for each child. The School, which is part of the State's education program, is independent of any school district and is non sectarian 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 had one fiscal service provider during the 2018 fiscal year, Mangen & Associates. Douglas Mangen served as the Certified Treasurer during the entire 2018 fiscal period. The St. Aloysius Orphanage was the School's sponsor in fiscal year 2018. 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 operates under the direction of a five-member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 5 non-certified and 10 certificated full time teaching personnel who provide services to 142 students.

The School entered into a service agreement with Mangen & Associates to provide certain academic program development and support, operations management, CCIP administration, EMIS/SOES/CRRS administration and financial/accounting services, including performing all duties required of the Treasurer of the School (See Note 11). The School also entered into a service agreement with Metropolitan Educational Technology Association (META Solutions) for technology-related services. The META Solutions board of directors consists of twelve voting members made up of twelve superintendents from the META Solutions district membership.

2. Summary of Significant Accounting Policies:

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

A. Basis of Presentation

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

2. Summary of Significant Accounting Policies (Continued):

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources is defined as net position. The statement of revenues, expenses and changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. 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 prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated biannually.

D. 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.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School maintains a capitalization threshold of $1,000. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimate Life
Buildings	30 years
Furniture, Fixtures, and Equipment	5 years
Building Improvements	5 years

2. Summary of Significant Accounting Policies (Continued):

F. 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 these estimates.

G. Intergovernmental Revenues

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

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program, facilities funding, economic disadvantaged funding, and funds distributed from the State's proceeds of the tax on gross casino revenue. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies, depreciation and other.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings and expense, if any, and contributions comprise the non-operating revenues and expenses of the School.

I. Accrued Liabilities Payable

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

Wages and Benefits Payable – salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2018 contract.

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2018.

Intergovernmental Payable - payments made after year-end for the Schools' share of retirement contributions and Medicare associated with services rendered during the fiscal year.

2. Summary of Significant Accounting Policies (Continued):

J. Deferred Outflows/Inflows of Resources

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

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

K. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Investment in Capital Assets, consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

M. Economic Dependency

The School receives nearly 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

N. Pensions and Other Postemployment Benefits (OPEB)

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

3. Deposits:

At June 30, 2018, the carrying amount of the School's deposits was $30,217 and the bank balance was $40,566. 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.

4. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. Intergovernmental receivables at June 30, 2018 consisted of pension overpayments and federal grants.

5. Capital Assets:

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

Capital Assets:	**Beginning Balance**	**Additions**	**Deletions**	**Ending Balance**
Building and Building Improvements	$ 658,398	$ -	$ -	$ 658,398
Furniture and Equipment	108,221	-	-	108,221
Vehicles	38,528	-	-	38,528
Total Capital Assets	805,147	-	-	805,147
Less Accumulated Depreciation:				
Building and Building Improvements	(80,035)	(21,031)	-	(101,066)
Furniture and Equipment	(102,619)	(2,526)	-	(105,145)
Vehicles	(19,264)	(7,706)	-	(26,970)
Total Accumulated Depreciation	(201,918)	(31,263)	-	(233,181)
Net Capital Assets	$ 603,229	$ (31,263)	$ -	$ 571,966

6. Long-Term Obligations:

The changes in the School's long-term obligation during the fiscal year are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Notes Payable	$ 363,950	$ -	$ -	$ 363,950	$ -
Note Premium	7,422	-	(7,422)	-	-
Net Pension Liability (See Note 8)	3,038,720	-	(1,014,865)	2,023,855	-
Net OPEB Liability (See Note 9)	588,084	-	(151,652)	436,432	-
Total	$ 3,998,176	$ -	$ (1,173,939)	$ 2,824,237	$ -

In fiscal year 2015, the School entered into a Promissory Note with Mangen Family Foundation to secure capital funds for the purchase of the school building located at 4324 Homer Avenue. The purchase was approved for $630,941. The Promissory Note with the Mangen Family Foundation is collateralized by the property.

The note carries an interest rate of 0%; however, interest has been imputed at 5%, resulting in a note premium at issuance totaling $36,050. The note premium will be amortized over the life of the note. The note has no required schedule of payment; however, the note has a maturity date of January 1, 2021.

Assuming the School pays the debt by the maturity date, debt-service-to-maturity requirements to retire the note is as follows:

Fiscal Year	Principal	Interest	Total
2019	$ -	$ 18,198	$ 18,198
2020	-	18,198	18,198
2021	363,950	10,615	374,565
Totals	$ 363,950	$ 47,011	$ 410,961

7. Risk Management:

A. Property and Liability - 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. For the year ended June 30, 2018, the School contracted with the McGowan Governmental UW for $3,000,000 (aggregate) general liability insurance coverage. There was no significant reduction in coverage during the fiscal year. Settlement amounts did not exceed coverage amounts in each of the last three fiscal years.

7. Risk Management (continued):

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

   C. Employee Insurance Benefits - The School utilizes Guardian Insurance and Medical Mutual to provide dental, vision, health, life, accidental death and dismemberment insurance benefits to School employees.

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 District cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

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.

8. Defined Benefit Pension Plans (continued):

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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 $18,114 for fiscal year 2018 of which the entire amount has been paid.

8. Defined Benefit Pension Plans (continued):

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five 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.

8. Defined Benefit Pension Plans (continued):

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

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

The School's contractually required contribution to STRS was $65,533 for fiscal year 2018 of which the entire amount has been paid.

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

The net pension liability was measured as of June 30, 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	$390,249	$1,633,606	$2,023,855
Proportion of the Net Pension Liability-2018	0.0065316%	0.00687683%	
Proportion of the Net Pension Liability-2017	0.0070738%	0.00753139%	
Change in Proportionate Share	-0.0005422%	-0.00065456%	
Pension Expense	($22,384)	($796,173)	($818,557)

8. Defined Benefit Pension Plans (continued):

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 16,795	$ 63,082	$ 79,877
Changes of assumptions	20,180	357,288	377,468
Changes in proportion and differences between School contributions and proportionate share of contributions	4,375	-	4,375
School contributions subsequent to the measurement date	18,114	65,533	83,647
Total Deferred Outflows of Resources	$ 59,464	$ 485,903	$ 545,367
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$ 13,166	$ 13,166
Net difference between projected and actual earnings on pension plan investments	1,852	53,911	55,763
Changes in proportion and differences between School contributions and proportionate share of contributions	29,470	481,177	510,647
Total Deferred Inflows of Resources	$ 31,322	$ 548,254	$ 579,576

$83,647 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	$7,202	($84,413)	($77,211)
2020	11,947	(3,817)	8,130
2021	(2,145)	(29,781)	(31,926)
2022	(6,976)	(9,873)	(16,849)
Total	$10,028	($127,884)	($117,856)

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

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

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

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

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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$541,564	$390,249	$263,491

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.

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.

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 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	$2,341,718	$1,633,606	$1,037,127

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.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by School Employees Retirement System or State Teachers Retirement System have an option to choose Social Security. As of June 30, 2018, no members of the Board of Education have elected Social Security. The School's liability is 6.2 percent of wages paid.

9. Post-employment Benefits:

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

9. Post-employment Benefits (continued):

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School's surcharge obligation was $916. 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 $1,587 for fiscal year 2018. Of this amount, $938 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.

9. Post-employment Benefits (continued):

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.0062645%	0.00687683%	
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.0065010%	0.00753139%	
Change in Proportionate Share	-0.0002365%	-0.00065456%	
Proportionate Share of the Net OPEB Liability	$168,123	$268,309	$436,432
OPEB Expense	$5,900	($88,874)	($82,974)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and			
actual experience	$0	$15,488	$15,488
District contributions subsequent to the			
measurement date	1,587	-	1,587
Total Deferred Outflows of Resources	$1,587	$15,488	$17,075
Deferred Inflows of Resources			
Changes of assumptions	$15,954	$21,613	$37,567
Difference between District contributions			
and proportionate share of contributions	4,949	28,005	32,954
Net difference between projected and			
actual earnings on OPEB plan investments	444	11,468	11,912
Total Deferred Inflows of Resources	$21,347	$61,086	$82,433

9. Post-employment Benefits (continued):

$1,587 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	($7,684)	($11,399)	($19,083)
2020	(7,684)	(11,399)	(19,083)
2021	(6,298)	(11,399)	(17,697)
2022	319	(11,401)	(11,082)
Total	($21,347)	($45,598)	($66,945)

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:

9. Post-employment Benefits (continued):

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

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

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

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

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:

9. Post-employment Benefits (continued):

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's proportionate share of the net OPEB liability	$203,030	$168,123	$140,468

9. Post-employment Benefits (continued):

	1% Decrease (6.5% decreasing to 4.0 percent)	Current Trend Rate (7.5% decreasing to 5.0 percent)	1% Increase (8.5% decreasing to 6.0 percent)
School's proportionate share of the net OPEB liability	$136,419	$168,123	$210,083

Actuarial Assumptions - STRS

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

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

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

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

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

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

9. Post-employment Benefits (continued):

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

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

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

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

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

9. Post-employment Benefits (continued):

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's proportionate share of the net pension liability	$360,200	$268,309	$195,684

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net pension liability	$186,409	$268,309	$376,098

10. Contingencies:

A. Grants and Student Attendance Data Review

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

10. Contingencies (continued):

B. Full-Time Equivalency Reviews

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 $1,613. Of this amount, $1,608 is reported as an intergovernmental payable on the Statement of Net Position.

11. Contracted Fiscal Services:

The School is a party to a management services agreement with Mangen & Associates (M&A) School Resource Center, which is an education services organization, to perform the following services:

- **Treasurer Services, Financial Management, EMIS/SOES and CCIP Administration**, including required documents for state and federal governments, basic accounting reports to School staff and Board, financial management support services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, resource call support, EMIS/SOES setup, performance, maintenance, oversight, and input of financial data directly into the EMSI and SOES subsystems, and all areas of CCIP application, management, fund retrieval and consolidated application allocation reviews tailored specifically toward the School's needs.

The contract is for a three-year period beginning on the first day of July, 2015 and ending on June 30, 2018. Payments for these services during fiscal year 2018 totaled $65,146. In addition, the School has recorded a payable for services in the amount of $870,115 for services provided.

12. Contracted Instruction Development and Operations Administration:

The School is a party to a management services agreement with Miniya Academies to perform the following services:

- **Education Program Management**, including curriculum development, teacher recruitment and recommendation for selection, teacher professional development, instruction support, program assessment and evaluation, instruction procedures, student discipline, special education and other functions performed by school leaders in Ohio public schools.

12. Contracted Instruction Development and Operations Administration (continued):

- **School Operations Management**, including oversight of facilities, technology, human resources, office administration, staff recruitment and recommendation for selection, staff training, operations oversight and refinement, program assessment and evaluation, procedure development, and other functions performed by typical school operations managers in Ohio public schools.

The contract is for a three-year period beginning on the first day of July, 2016 and ending on June 30, 2019. Payments for these services during fiscal year 2018 totaled $101,133. In addition, the School has recorded a payable for services in the amount of $83,379 for services provided.

13. Purchased Services:

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

Management Services	$ 285,522
Instructional Services	34,101
Health Services	6,022
Legal Services	1,639
Travel and Meetings	4,483
Professional and Technical Services	189,384
Garbage Removal	56,214
Rentals	24,951
Utilities	88,520
Contracted Food Services	104,295
Advertising	175
Repairs and Maintenance	375
Property Services	18,305
Postage Services	1,710
Total	$ 815,696

14. Related Party Transaction:

Mangen and Associates was under contract to provide education program management, school operations management, treasurer services, financial management, and EMIS, SOES and CCIP administration, as described in Note 12. In addition, the Mangen Family Foundation has loaned funds to the School, as described in Note 6. Mangen and Associates and Mangen Family Foundation are related parties.

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 Position June 30, 2017	(3,566,723)
Adjustments:	
Net OPEB Liability	(588,084)
Deferred Outflow- Payments Subsequent to Measurement Date	1,733
Restated Net Position June 30, 2017	(4,153,074)

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

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

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

GASB Statement No. 86 "Certain Debt Extinguishment Issues" improves consistency in accounting and financial reporting for in-substance defeasances 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.

16. Management's Plan to Address Deficit Net Position:

The School began operations in fiscal year 2012 with loan support from private foundations since financial assistance was not available from the normal State / Federal start-up grants. These loans enabled the School 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 students during fiscal year 2012.

At June 30, 2018, the School had a deficit unrestricted net position of $(3,526,083). This negative net position is primarily the result of the School's net pension and net OPEB liabilities and related accounts, 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. Management's plan includes four primary areas of focus: (1) grow current student enrollment, (2) continue return on investment (ROI) 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 three of these four priority areas. The School's enrollment continues to struggle, but the use of ROI budgeting is in place for all spending requests, expenses 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 School will continue directing a significant amount of time and energy toward making stronger family connections to expand the awareness of the School's high academic performance and grow future student enrollment. In addition, financial planning will continue to focus on ROI confirmation for all purchases, trimming costs through process improvements and continued spending restrictions for any purchases not directly aligned to the School's instruction program.

During fiscal year 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 objective for fiscal year 2019 through 2023 is to pay off a portion of the amount owed to M&A and the Mangen Family Foundation when cash flow is adequate to cover these payments while leaving enough cash to sustain a high-quality instruction program for students. The School's Board adopted a five-year balanced budget for FY19-FY23 which includes a plan for sustaining payments toward the loan balance to the Mangen 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.

17. Subsequent Event:

On September 7, 2018, the School's Sponsor placed the School on probation.

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0065316%	0.0070738%	0.0072949%	0.006979%	0.006979%
School's Proportionate Share of the Net Pension Liability	$ 390,249	$ 517,737	$ 416,254	$ 353,203	$ 415,019
School's Covered Payroll	$ 219,066	$ 223,711	$ 220,078	$ 198,295	$ 222,486
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	178.14%	231.43%	189.14%	178.12%	186.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 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

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

LAST FIVE FISCAL YEARS (1)

	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.00687683%	0.00753139%	0.00901915%	0.00965725%	0.00965725%
School's Proportionate Share of the Net Pension Liability	$ 1,633,606	$ 2,520,983	$ 2,492,629	$ 2,348,977	$ 2,798,087
School's Covered Payroll	$ 708,611	$ 763,897	$ 681,526	$ 1,030,266	$ 1,171,754
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	230.54%	330.02%	365.74%	228.00%	238.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 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

MADISONVILLE SMART ELEMENTARY
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST SEVEN FISCAL YEARS (1)

	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 18,114	$ 30,669	$ 31,320	$ 29,006	$ 27,484	$ 30,792	$ 36,448
Contributions in Relation to the Contractually Required Contribution	$ 18,114	$ 30,669	$ 31,320	$ 29,006	$ 27,484	$ 30,792	$ 36,448
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 134,179	$ 219,066	$ 223,711	$ 220,078	$ 198,295	$ 222,486	$ 270,993
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%

(1) Fiscal year 2012 was the School's first year of operation.

See accompanying notes to the required supplementary information

MADISONVILLE SMART ELEMENTARY
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST SEVEN FISCAL YEARS (1)

	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 65,533	$ 99,206	$ 106,945	$ 95,414	$ 133,935	$ 152,328	$ 131,482
Contributions in Relation to the Contractually Required Contribution	$ 65,533	$ 99,206	$ 106,945	$ 95,414	$ 133,935	$ 152,328	$ 131,482
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 468,095	$ 708,611	$ 763,897	$ 681,526	$ 1,030,266	$ 1,171,754	$ 1,011,403
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%

(1) Fiscal year 2012 was the School's first year of operation.

See accompanying notes to the required supplementary information

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

LAST TWO FISCAL YEARS (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.0062645%	0.0065010%
School's Proportionate Share of the Net OPEB Liability	$ 168,123	$ 185,303
School's Covered Payroll	$ 219,066	$ 223,711
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.75%	82.83%
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

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

LAST TWO FISCAL YEARS (1)

	2018	2017
School's Proportion of the Net OPEB Liability	0.00687683%	0.00753139%
School's Proportionate Share of the Net OPEB Liability	$ 268,309	$ 402,781
School's Covered Payroll	$ 708,611	$ 763,897
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	37.86%	52.73%
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

MADISONVILLE SMART ELEMENTARY
SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST SEVEN FISCAL YEARS (1)

	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution (2)	$ 1,587	$ 1,733	$ 837	$ 3,240	$ 1,785	$ 3,517	$ 6,444
Contributions in Relation to the Contractually Required Contribution	$ 1,587	$ 1,733	$ 837	$ 3,240	$ 1,785	$ 3,517	$ 6,444
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 134,179	$ 219,066	$ 223,711	$ 220,078	$ 198,295	$ 222,486	$ 270,993
OPEB Contributions as a Percentage of Covered Payroll (2)	1.18%	0.79%	0.37%	1.47%	0.90%	1.58%	2.38%

(1) Fiscal year 2012 was the School's first year of operation.
(2) Includes Surcharge

See accompanying notes to the required supplementary information

MADISONVILLE SMART ELEMENTARY
SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST SEVEN FISCAL YEARS (1)

	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution	$ -	$ -	$ -	$ -	$ 10,303	$ 11,718	$ 10,114
Contributions in Relation to the Contractually Required Contribution	$ -	$ -	$ -	$ -	$ 10,303	$ 11,718	$ 10,114
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 468,095	$ 708,611	$ 763,897	$ 681,526	$ 1,030,266	$ 1,171,754	$ 1,011,403
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%

(1) Fiscal year 2012 was the School's first year of operation.

See accompanying notes to the required supplementary information

Net Pension Liability

School Employees Retirement System

Changes in benefit terms:

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

Changes in assumptions:

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

State Teachers Retirement System

Changes in benefit terms:

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

Changes in assumptions:

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

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

Net OPEB Liability

School Employees Retirement System

Changes in Assumptions:

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

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

State Teachers Retirement System

Changes in Assumptions:

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

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

This page intentionally left blank.

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

Madisonville Smart Elementary
Hamilton County
4324 Homer Avenue
Cincinnati, Ohio 45227

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 Madisonville Smart Elementary, Hamilton 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 statement and have issued our report thereon dated March 5, 2019, wherein we noted that the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* that the School reported a negative net position, exclusive of pension related accounts, at June 30, 2018 and that the School was place on probation by their sponsor on September 7, 2018.

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
Auditor of State
Columbus, Ohio

March 5, 2019

OHIO AUDITOR OF STATE
KEITH FABER

MADISONVILLE SMART ELEMENTARY

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 19, 2019