TOLEDO SMART ELEMENTARY
LUCAS COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

TOLEDO SMART ELEMENTARY
LUCAS COUNTY
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Toledo SMART Elementary, Lucas County, Ohio (the School), as of and for the year ended June 30, 2016, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Toledo SMART Elementary, Lucas County, Ohio, as of June 30, 2016 and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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 April 19, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

April 19, 2017

As management of Toledo SMART Elementary School (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- The liabilities of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $330,352 (negative net position) compared to $170,549 (negative net position) in fiscal year 2015.

- At fiscal year-end, the School's total assets and deferred outflows of resources were $589,530 and total liabilities were $919,882.

- The School had an operating loss of $316,436 in fiscal year 2016 compared to $209,466 in fiscal year 2015.

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.

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

The statement of revenues, expenses and changes in net position reports the changes 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, 2016 and June 30, 2015.

Table 1
Net Position at Year End

	2016	2015
Assets:		
Current and Other Assets	$ 90,968	$ 31,313
Capital Assets, Net	143,931	79,928
Total Assets	234,899	111,241
Deferred Outflows of Resources	354,631	22,687
Liabilities:		
Current Liabilities	223,532	88,947
Noncurrent Liabilities	696,350	215,530
Total Liabilities	919,882	304,477
Net Position:		
Net Investment in Capital Assets	46,793	22,178
Restricted	9,763	-
Unrestricted	(386,908)	(192,727)
Total Net Position	$ (330,352)	$ (170,549)

Current Assets increased significantly in comparison with the prior fiscal year-end. This increase is the result of timing of federal grant draws and underpayment of foundation payments.

Capital Assets, Net and Net Investment in Capital Assets both increased significantly in comparison with the prior fiscal year-end. These increases represent the amount in which current year acquisitions exceeded current year depreciation expense.

Current Liabilities increased significantly over those reported one year ago. This increase is primarily the result of the additional payables resulting from insufficient cash flows.

Noncurrent Liabilities increased significantly due to the recording of the net pension liability, a new school bus loan and additional operating loans.

Financial Analysis

Table 2 shows the change in net position for the fiscal year ended June 30, 2016 and June 30, 2015.

Table 2
Changes in Net Position

	2016	2015
Operating Revenues:		
Foundation Revenues	$ 695,567	$ 223,718
Other Unrestricted Grants in Aid	3,119	1,991
Total Operating Revenues	698,686	225,709
Operating Expenses:		
Salaries and Wages	412,451	166,457
Fringe Benefits	151,958	29,232
Purchased Services	382,260	197,531
Materials and Suppilies	32,507	26,122
Depreciation	18,782	6,380
Other	17,164	9,453
Total Operating Expenses	1,015,122	435,175
Operating Loss	(316,436)	(209,466)
Nonoperating Revenues (Expenses)		
Federal and State Grants	136,934	21,884
Other Restricted Grants in Aid	15,361	15,576
Other Nonoperating Revenues	7,543	1,857
Other Nonoperating Expenses	(3,205)	(400)
Total Nonoperating Revenues (Expenses)	156,633	38,917
Change in Net Position	(159,803)	(170,549)
Net Position, Beginning of Year	(170,549)	-
Net Position, End of the Year	$ (330,352)	$ (170,549)

Fiscal year 2015 was the School's first year of operations. All revenues and expenses increased significantly in comparison with the prior fiscal year. These increases are the result of an increase in enrollment from 32 students in fiscal year 2015 to 83 students in fiscal year 2016.

Capital Assets

At fiscal year-end, the School had $143,931 invested in capital assets, an increase of $64,003 in comparison with the prior fiscal year-end. This increase represents the amount in which current year capital acquisitions of $82,785 exceeded current year depreciation of $18,782. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's notes payable balance was $356,638, an increase of $122,888 in comparison with the prior fiscal year-end. This increase represents new loans totaling $162,481 offset by principal payments totaling $39,593. For more information on debt, see Note 6 to the basic financial statements.

Current Financial Issues

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

Contacting the School

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

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

Assets:		
Current Assets		
Cash and Cash Equivalents	$	32,028
Intergovernmental Receivable		46,753
Prepaid Items		4,187
Security Deposit		8,000
Total Current Assets		90,968
Noncurrent Assets		
Capital Assets, Net		143,931
Total Assets		234,899
Deferred Outflows of Resources:		
Pension		354,631
Liabilities:		
Current Liabilities		
Accounts Payable		126,353
Accrued Wages and Benefits Payable		46,427
Intergovernmental Payable		13,346
Notes Payable (Current Portion)		37,406
Total Current Liabilities		223,532
Long-Term Liabilities:		
Notes Payable		319,232
Net Pension Liability		377,118
Total Long-Term Liabilities		696,350
Total Liabilities		919,882
Net Position:		
Net Investment in Capital Assets		46,793
Restricted		9,763
Unrestricted		(386,908)
Total Net Position	$	(330,352)

See accompanying notes to the basic financial statements.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating Revenues:		
Foundation Revenue	$	695,567
Other Unrestricted Grants in Aid		3,119
Total Operating Revenues		698,686
Operating Expenses:		
Salaries		412,451
Fringe Benefits		151,958
Purchased Services		382,260
Materials and Supplies		32,507
Depreciation		18,782
Other		17,164
Total Operating Expenses		1,015,122
Operating Loss		(316,436)
Non-Operating Revenues (Expenses):		
Federal and State Grants		136,934
Other Restricted Grants in Aid		15,361
Contributions and Donations		7,543
Interest Expense		(3,205)
Total Non-Operating Revenues (Expenses)		156,633
Change in Net Position		(159,803)
Net Position Beginning of Year		(170,549)
Net Position End of Year	$	(330,352)

See accompanying notes to the basic financial statements.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities:	
Received from Foundation Payments	$ 673,143
Received from Disadvantaged Pupil Impact Aid	3,119
Payments to Suppliers for Goods and Services	(340,489)
Payments to Employees for Services and Benefits	(477,851)
Payments to Other	(11,625)
Net Cash Used for Operating Activities	(153,703)
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	112,754
Received from Loan	83,500
Received from Contributions and Donations	7,543
Other Non-Operating Receipts	15,361
Net Cash Provided by Noncapital Financing Activities	219,158
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(3,804)
Principal Paid on Loan	(39,593)
Interest Paid on Loan	(3,205)
Net Cash Used for Capital and Related Financing Activities	(46,602)
Net Increase in Cash and Cash Equivalents	18,853
Cash and Cash Equivalents at Beginning of Year	13,175
Cash and Cash Equivalents at End of Year	$ 32,028

See accompanying notes to the basic financial statements.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(316,436)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		18,782
Changes in Assets and Liabilities:		
Intergovernmental Receivable		(17,974)
Prepaid Items		1,352
Accounts Payable		78,465
Accrued Wages and Benefits Payable		26,520
Intergovernmental Payable		10,414
Net Pension Liability		45,174
Net Cash Used for Operating Activities	$	(153,703)

Schedule of Noncash Transactions:

During the fiscal year, the School borrowed $78,981 to finance the purchase of a bus.

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The Buckeye Community Hope Foundation is the School's sponsor. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 12).

The School operates under the direction of a six-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 3 non-certified and 10 certificated full time teaching personnel who provide services to 83 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does require a five-year forecast which is to be updated biannually.

E. Capital Assets

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

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

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year which services are consumed.

H. Deferred Outflows/Inflows of Resources

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

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

I. Accrued Liabilities Payable

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

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2016.

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 2016 contract.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Intergovernmental Revenues

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

K. Pensions

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

L. Net Position

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

M. Operating Revenues and Expenses

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

N. Estimates

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

NOTE 3 – DEPOSITS

At June 30, 2016, the carrying amount of the School’s deposits was $32,028 and the bank balance was $66,765. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, the School’s bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. Intergovernmental receivables at June 30, 2016 consisted of federal grants receivable, totaling $24,180, and foundation underpayments of $22,573.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 7,533	$ 3,804	$ -	$ 11,337
Vehicles	78,775	78,981	-	157,756
Total Capital Assets	86,308	82,785	-	169,093
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(753)	(1,887)	-	(2,640)
Vehicles	(5,627)	(16,895)	-	(22,522)
Total Accumulated Depreciation	(6,380)	(18,782)	-	(25,162)
Capital Assets, Net	$ 79,928	$ 64,003	$ -	$ 143,931

NOTE 6 – LONG TERM OBLIGATIONS

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Mangen Note	$ 176,000	$ 83,500	$ -	$ 259,500	$ -
Bus Loan FY15	57,750	-	(18,220)	39,530	19,231
Bus Loan FY16	-	78,981	(21,373)	57,608	18,175
Total	$ 233,750	$ 162,481	$ (39,593)	$ 356,638	$ 37,406

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

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

NOTE 6 – LONG TERM OBLIGATIONS (continued)

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

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

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

June 30	Principle	Interest	Total
2017	$ 37,406	$ 5,390	$ 42,796
2018	298,983	3,314	302,297
2019	20,249	1,123	21,372
Total	$ 356,638	$ 9,827	$ 366,465

NOTE 7 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School contracted with Accord Insurance Company for general liability, property insurance, educational errors and omissions insurance.

Coverages are as follows:

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. The was no percentage allocated to the Health Care Fund in fiscal year 2016.

The School's contractually required pension contribution to SERS was $10,579 for fiscal year 2016. Of this amount, $2,754 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016.

For the fiscal year ended June 30, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $47,164 for fiscal year 2016. Of this amount, $8,403 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, 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	$65,540	$311,578	$377,118
Proportion of the Net Pension Liability	0.00114860%	0.00112739%	
Pension Expense	$4,942	$19,225	$24,167

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

At June 30, 2016, the School reported deferred outflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$686	$12,224	$12,910
Net difference between projected and actual earnings on pension plan investments	4,905	15,641	20,546
Differences due to change in proporationate share percentage between measurement dates	44,055	219,377	263,432
School contributions subsequent to the measurement date	10,579	47,164	57,743
Total Deferred Outflows of Resources	$60,225	$294,406	$354,631

$57,743 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, 2017.

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:			
2017	$15,520	$61,810	$77,330
2018	15,520	61,810	77,330
2019	15,520	61,810	77,330
2020	3,086	61,812	64,898
Total	$49,646	$247,242	$296,888

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflatioı	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflatioı
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 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 (7.75 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 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$90,881	$65,540	$44,201

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.50 percent. Although the exact amount of these changes is not known, the impact on the School's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$432,805	$311,578	$209,062

NOTE 9 – POSTEMPLOYMENT BENEFITS

a. School Employees Retirement System

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

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0.00 %. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro- rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at $23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

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

NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)

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

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

b. State Teachers Retirement System of Ohio

Plan Description - STRS administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

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

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

NOTE 10 – EMPLOYEE BENEFITS

Insurance Benefits

Health, Dental and Vision insurance coverage is provided through United Health Care, Superior Dental Care, and VSP, respectively.

NOTE 11 – PURCHASED SERVICES

During the fiscal year ended June 30, 2016, other purchased service expenses for services rendered by various vendors were as follows:

Other Professional and Technical Services	$	150,877
Management Services		63,466
Transportation Services		30,213
Postage		96
Food Services		63,981
Garbage Removal and Cleaning		768
Rentals		44,000
Travel and Meeting Expense		4,669
Advertising		2,124
Utilities		22,066
Total	$	382,260

NOTE 12 – CONTRACTED FISCAL SERVICES

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

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

The School made payments of $63,466 during fiscal year 2016. In addition, the School reports a liability for services of $124,973 as of June, 30, 2016 which is included as part of accounts payable.

NOTE 13 - CONTINGENCIES

a. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2016, if applicable, cannot be determined at this time. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at fiscal year-end.

NOTE 13 – CONTINGENCIES (continued)

b. State Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School, which can extend past the fiscal year end. ODE has finalized the impact of enrollment adjustments to the fiscal year 2015 and fiscal year 2016 Foundation funding for the School and determined that as of June 30, 2016, the School was underpaid by $22,573. This amount is recorded as an intergovernmental receivable on the Statement of Net Position.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the School implemented *GASB Statement No. 72 “Fair Value Measurement and Application”* which enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepter valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2016, the School implemented GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” which improves financial reporting be (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the School.

NOTE 15 – MANAGEMENT'S PLAN TO ADDRESS DEFICIT NET POSITION

Toledo SMART Elementary School (TSES) began operations in fiscal year 2015 with loan support from private foundations since financial assistance was not available from the normal State / Federal start-up grants. These loans enabled TSES to provide gap funding for ongoing operations since State Foundation payments were not adequate to cover the high quality instruction program provided to TSES students during fiscal year 2016.

At June 30, 2016, the School had a deficit unrestricted net position of $386,908. This negative net position is a direct result of start-up purchases of school furniture, technology equipment and curriculum required to support the School's growing instruction program. Fortunately, the School's Management Team had experience with starting Ohio community schools without the benefit of State/Federal start-up grants and has developed a comprehensive long-range plan to eliminate the deficit balance. The Management's plan includes four primary areas of focus: (1) grow current student enrollment, (2) continue return-on-investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. As of November 2016, the Management Team has succeeded in making progress in each of these four priority areas. The School's enrollment improved significantly from FY15 to FY16, the use of ROI budgeting is in place for all spending requests, expenditures are evaluated for impact on student learning growth prior to approval and internal auditing is conducted on a quarterly basis to ensure continued process improvements.

The TSES Team (Board, Management, Teachers and Staff) will continue directing a significant amount of time and energy toward making stronger family connections to expand the awareness of the School's high academic performance and grow future student enrollment. In addition, financial planning will continue to focus on ROI confirmation for all purchases, trimming costs through process improvements and continued spending restrictions for any purchases not directly aligned to the School's instruction program. During fiscal year 2016, the School remained current on all outstanding payables with the exception of its Management Company, Mangen & Associates (M&A). The amount owed to M&A at June 30, 2016 included reimbursements for payments made by M&A to vendors on behalf of TSES for school start-up purchases and contracted service fees. The objective for fiscal year 2017 through 2021 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 TSES students. The School's Board has adopted a five-year balanced budget for FY17-FY21 which includes a plan for the 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.

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST FISCAL YEAR (1)

	2015
School's Proportion of the Net Pension Liability	0.001149%
School's Proportionate Share of the Net Pension Liability	$ 65,540
School's Covered-Employee Payroll	$ 34,577
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%

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

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST TWO FISCAL YEARS (1)

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

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

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

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

LAST FISCAL YEAR (1)

		2015
School's Proportion of the Net Pension Liability		0.001127%
School's Proportionate Share of the Net Pension Liability	$	311,578
School's Covered-Employee Payroll	$	129,501
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll		240.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		72.10%

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

TOLEDO SMART ELEMENTARY SCHOOL
LUCAS COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TWO FISCAL YEARS (1)

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

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

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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Toledo SMART Elementary, Lucas County, Ohio (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 19, 2017.

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*.

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

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 communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

April 19, 2017

Dave Yost · Auditor of State

TOLEDO SMART ELEMENTARY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 4, 2017

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
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