L. HOLLINGWORTH SCHOOL
FOR THE TALENTED AND GIFTED
LUCAS COUNTY

SINGLE AUDIT

FOR THE FISCALYEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

L. HOLLINGWORTH SCHOOL FOR TALENTED AND GIFTED
LUCAS COUNTY

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INDEPENDENT AUDITOR'S REPORT

L. Hollingworth School for Talented and Gifted
Lucas County
653 Miami Street
Toledo, Ohio 43605

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of L. Hollingworth School for Talented and Gifted, Lucas County, Ohio (the School), as of and for the year ended June 30, 2015, 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 overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of L. Hollingworth School for Talented and Gifted, Lucas County, Ohio as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension 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.

Supplementary and Other Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2016, 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

March 22, 2016

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As management of the L. Hollingworth School for the Talented and Gifted (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, 2015. 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:

- Ending net position of the School was negative $1,487,026, an increase of $6,770 in comparison with the prior fiscal year-end.

- Total assets increased $688,248 from the prior year and total liabilities increased by $413,551 during this same 12 month period.

- The School's operating loss for fiscal year 2015 was $483,114 compared with an operating loss of $430,340 reported for the prior year.

- Total revenues increased by $975,396 while total expenses increased by $801,086 over those reported for the prior 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.

Reporting the Schools Financial Activities

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

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, deferred outflows of resources, 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.

The Statement of Cash Flows provides information about how the School is meeting the cash flow needs of its operations.

Financial Analysis

Table 1 provides a summary of the School's net position for 2015 and 2014:

Table 1
Net Position at Year End

	2015	2014
Assets:		
Current Assets	$ 477,588	$ 285,445
Capital Assets, Net	4,608,644	4,112,539
Total Assets	5,086,232	4,397,984
Deferred Ouflows of Resources	175,705	121,634
Liabilities		
Current Liabilities	314,028	972,775
Non-Current Liabilities	6,112,937	5,040,639
Total Liabilities	6,426,965	6,013,414
Deferred Inlows of Resources	321,998	-
Net Position:		
Net Investment in Capital Assets	193,221	417,741
Restricted	61,414	53,630
Unrestricted	(1,741,661)	(1,965,167)
Total Net Position	$ (1,487,026)	$ (1,493,796)

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

GASB notes that pension 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. GASB noted that the unfunded portion of this pension 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 this liability. 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 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 pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system 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 pension system is responsible for the administration of the plan.

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. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, 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 pension 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 is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $527,308 to negative $1,493,796.

Current Assets increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of an increase in Cash and Cash Equivalents due to the School's significant enrollment growth.

Current Liabilities decreased significantly, primarily as a result of a decrease in accounts payable. This decrease was the result of construction-related payables outstanding at the end of fiscal year 2014.

Capital Assets, Net and Noncurrent Liabilities both increased significantly. The increase in capital assets is the result of the School finalizing their building renovation project during the fiscal year. The increase in Noncurrent Liabilities is the result of an increase in loans payable related to the School's building renovation project, offset by a decrease in net pension liability. The net pension liability decrease is primarily the result of favorable pension investment returns.

Financial Analysis

Table 2 provides a summary of the School's change in net position for 2015 and 2014:

Table 2
Changes in Net Position

	2015	2014
Operating Revenues:		
Foundation Revenues	$ 2,189,681	$ 1,631,819
Other Unrestricted Grants-in-Aid	41,809	31,954
Food Services	840	3,927
Classrooom Fees	1,847	-
Total Operating Revenues	2,234,177	1,667,700
Operating Expenses:		
Salaries and Wages	1,155,240	856,483
Fringe Benefits	245,818	233,266
Purchased Services	826,144	727,131
Materials and Supplies	314,856	186,355
Depreciation	115,178	22,267
Other	60,055	72,538
Total Operating Expenses	2,717,291	2,098,040
Operating Loss	(483,114)	(430,340)
Nonoperating Revenues (Expenses)		
Federal Grants	582,235	293,525
State Grants	168,925	49,358
Contributions and Donations	500	4,624
Other Nonoperating Revenues	11,253	6,487
Interest and Fiscal Charges	(273,029)	(88,500)
Loss on Disposal of Assets	-	(2,694)
Total Nonoperating Revenues (Expenses)	489,884	262,800
Change in Net Position	6,770	(167,540)
Net Position, Beginning of Year, Restated	(1,493,796)	N/A
Net Position, End of the Year	$ (1,487,026)	$ (1,493,796)

Operating Revenues and Expenses both increased significantly in comparison with the prior fiscal year as a result of increasing student enrollment from 227 students in fiscal year 2014 to 314 students in fiscal year 2015. Federal Grants increased significantly in comparison with the prior fiscal year primarily as a result of an increase in federal funding received through the Title I Program. State Grants increased significantly as a result of an increase in State Economic Disadvantages Funding.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of $121,634 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $90,178.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	$ 2,717,291
Pension expense under GASB 68	(90,178)
2015 contractually required contribution	158,914
Adjusted 2015 operating expenses	2,786,027
Total 2014 program expenses under GASB 27	2,723,420
Decrease in program expenses not related to pension	$ 62,607

Capital Assets

At fiscal year-end, the School's net capital asset balance was $4,608,644, an increase of $496,105 in comparison with the prior fiscal year-end. This increase represents the amount in which current year acquisitions exceeded current year depreciation. For more information on capital assets, see Note 5 to the basic financial statements.

Debt

At fiscal year-end, the School's loan payable balance was $4,415,423. This balance represents funds borrowed in relation to the School's capital acquisition and renovation activities. For more information on the School's loan payable, see Note 6 to the basic financial statements.

Contacting the School

This financial report is designed to provide a general overview of the finances of the L Hollingworth School for the Talented and Gifted 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 L Hollingworth School for the Talented and Gifted, 653 Miami Street, Toledo, Ohio 43605.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 406,741
Intergovernmental Receivable	66,336
Prepaid Items	4,511
Total Current Assets	477,588
Noncurrent Assets	
Nondepreciable Capital Assets	41,700
Depreciable Capital Assets, Net	4,566,944
Total Noncurrent Assets	4,608,644
Total Assets	5,086,232
Deferred Outflows of Resources:	
Pension	175,705
Liabilities:	
Current Liabilities	
Accounts Payable	18,922
Accrued Wages and Benefits Payable	135,831
Intergovernmental Payable	50,164
Unearned Revenue	550
Loans Payable	108,561
Total Current Liabilities	314,028
Noncurrent Liabilities:	
Loan Payable	4,306,862
Net Pension Liability	1,806,075
Total Noncurrent Liabilities	6,112,937
Total Liabilities	6,426,965
Deferred Inflows of Resources:	
Pension	321,998
Net Position:	
Net Investment in Capital Assets	193,221
Restricted	61,414
Unrestricted	(1,741,661)
Total Net Position	$ (1,487,026)

See accompanying notes to the basic financial statements.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Operating Revenues:	
Foundation Revenues	$ 2,189,681
Other Unrestricted Grants-in-Aid	41,809
Food Services	840
Classroom Fees	1,847
Total Operating Revenues	2,234,177
Operating Expenses:	
Salaries and Wages	1,155,240
Fringe Benefits	245,818
Purchased Services	826,144
Materials and Supplies	314,856
Depreciation	115,178
Other	60,055
Total Operating Expenses	2,717,291
Operating Loss	(483,114)
Non-Operating Revenues (Expenses):	
Federal Grant Revenue	582,235
State Grant Revenue	168,925
Contributions and Donations	500
Other Revenue	11,253
Interest and Fiscal Charges	(273,029)
Total Non-Operating Revenues (Expenses)	489,884
Change in Net Position	6,770
Net Position Beginning of Year, Restated	(1,493,796)
Net Position End of Year	$ (1,487,026)

See accompanying notes to the basic financial statements.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Cash Flows from Operating Activities:	
Received from State of Ohio	$ 2,234,410
Received from Food Services	840
Received from Classroom Fees	1,847
Payments to Suppliers for Goods and Services	(1,162,424)
Payments to Employees for Services and Benefits	(1,406,305)
Payments for Other Operating Disbursements	(71,732)
Net Cash Used for Operating Activities	(403,364)
Cash Flows from Noncapital Financing Activities:	
Received from Federal Grants	542,637
Received from State Grants	168,925
Received from Other Non-Operating Revenues	11,253
Received from Contributions	500
Net Cash Provided by Noncapital Financing Activities	723,315
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(1,413,716)
Received from Loans	1,527,099
Payments for Loan Principal	(9,577)
Payments for Loan Interest	(273,029)
Received from Other	62,216
Net Cash Used for Capital and Related Financing Activities	(107,007)
Net Increase in Cash and Cash Equivalents	212,944
Cash and Cash Equivalents at Beginning of Year	193,797
Cash and Cash Equivalents at End of Year	$ 406,741

See accompanying notes to the basic financial statements.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(483,114)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		115,178
Changes in Assets and Liabilities:		
Prepaid Items		307
Intergovernmental Receivable		2,958
Accounts Payable		(38,488)
Accrued Wages and Benefits Payable		47,024
Intergovernmental Payable		21,507
Net Pension Liability		(68,736)
Net Cash Used for Operating Activities	$	(403,364)

See accompanying notes to the basic financial statements.

Note 1 – Description of the School and Reporting Entity

L. Hollingworth School for the Talented and Gifted (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 and aspires to create an educational environment that provides academic acceleration, personalized support, authentic assessment, and school-wide differentiated learning activities. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

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 operates under the direction of a 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 14 non-certified and 24 certificated full time teaching personnel who provided services to 314 students during the 2014-2015 school year.

Note 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 units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's most significant 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.

<u>Note 2 – Summary of Significant Accounting Policies (Continued)</u>

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, deferred outflows of resources, 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 Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The Statement of Cash Flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

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.

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

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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.

C. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it biannually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

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 $1,500. 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, except land and construction in progress. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straightline method over the following useful lives:

Description	Estimate Life
Buildings and Building Improvements	25 years
Computers and Equipment	5 years

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

G. Intergovernmental Revenue

The School is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. 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. The proceeds received from the State's tax on casino revenue are 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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. 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 comprise the non-operating revenues of the School. Interest and fiscal charges and loss on disposal of assets, if any, comprise the non-operating expenses.

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 June 30, 2015, 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 2015 contract.

Accounts payable - payments due for services or goods that were rendered or received during fiscal year 2015.

Intergovernmental payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2015 that were paid in the subsequent fiscal year.

J. 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 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 is explained in Note 8.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 less any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net position of the School at year-end represents resources held for food service programs and unspent state and federal grant proceeds. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Note 3 – Deposits

At June 30, 2015, the carrying amount of the School's deposits was $406,741 and bank balance was $449,255. Of the School's bank balance, $250,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance was uninsured.

Note 4 – Intergovernmental Receivables

All intergovernmental receivables are considered collectable in full due to the stable condition of State programs. The principal items of receivables at June 30, 2015 is as follows:

Source	Amount
Federal Grants:	
IDEA B	$ 1,042
Title I	61,906
SERS Overpayment	3,388
	$ 66,336

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 is as follows:

Capital Assets:	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 41,700	$ -	$ -	41,700
Construction in Progress	4,048,180	544,726	4,592,906	-
Total Nondepreciable Capital Assets	4,089,880	544,726	4,592,906	41,700
Depreciable Capital Assets:				
Buildings and Building Improvements	-	4,592,906	-	4,592,906
Computers and Equipment	111,055	66,557	-	177,612
Total Depreciable Capital Assets	111,055	4,659,463	-	4,770,518
Less Accumulated Depreciation:				
Buildings and Building Improvements	-	(92,692)	-	(92,692)
Computers and Equipment	(88,396)	(22,486)	-	(110,882)
Total Accumulated Depreciation	(88,396)	(115,178)	-	(203,574)
Total Depreciable Capital Assets, Net	22,659	4,544,285	-	4,566,944
Total Capital Assets	$ 4,112,539	$ 5,089,011	$ 4,592,906	$ 4,608,644

Note 6 – Loan Payable

Changes in the School's loan obligations during the fiscal year were as follows:

	Beginning Balance	**Additions**	**Deletions**	**Ending Balance**	**Due Within One Year**
Loan Payable	$ 2,897,901	$ 1,527,099	$ (9,577)	$ 4,415,423	$ 108,561
Total	$ 2,897,901	$ 1,527,099	$ (9,577)	$ 4,415,423	$ 108,561

On June 4, the School entered into a Master Construction to Term Loan and Security Agreement with Raza Development Fund, Inc. The School acquired a two-story approximately 60,000 square foot facility on an approximately 1.72 acre site at 653 Miami Street in Toledo, Ohio. The Master Construction to Term Loan and Security Agreement allows the School to borrow $4,425,000 to renovate the new facility.

Note 6 – Loan Payable (Continued)

The Construction Loan and Term Loan are evidenced by a promissory note and is secured by a mortgage on the property. Upon issuance, the School was charged a 2% origination fee totaling $88,500. The Construction Loan carries an interest rate of 6% and matures on June 3, 2015 (12 months after the Closing Date).

During fiscal year 2014, the School borrowed $2,897,901 of the approved borrowing amount. The remaining $1,527,099 was borrowed early in fiscal year 2015.

Subject to terms and conditions outlined in the Master Construction to Term Loan and Security Agreement, on June 3, 2015, the Construction Loan will be converted to a Term Loan for the same amount of funds. The interest rate on the Term Loan will be determined on the conversion date. The maturity date of the Term Loan will be seven years after the conversion date. The Term Loan will be repaid with monthly principal and interest payments beginning on the conversion date through maturity and will be fully amortized over 20 years.

If the Term Loan is repaid within the first year after the conversion date, the lender will be entitled to a fee equal to 3% of the loan amount. Each year thereafter, the fee will be reduced by 1%, such that the loan will be freely repayable after the fourth year of the Term Loan.

Assuming the School borrows the entire approved amount and complies with the terms and conditions related to converting the Construction Loan to the Term Loan, debt-service-to-maturity requirements to retire the loan are as follows:

Fiscal Year Ended June 30:	Principal	Interest	Total
2016	108,561	240,161	348,722
2017	125,428	254,998	380,426
2018	133,160	247,264	380,424
2019	141,376	239,049	380,425
2020	150,095	230,331	380,426
2021	3,756,803	222,873	3,979,676
Total	$ 4,415,423	$ 1,434,676	$ 5,850,099

Note 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, 2015, the School contracted with Great American Insurance Co. for its insurance coverage as follows:

Collective coverage amounts are as follows:

General Liability:		
Per Occurrence	$	1,000,000
Damage to Rented Premises	$	100,000
Med Exp	$	5,000
Personal & Adv Injury	$	1,000,000
General Aggregate/Products	$	3,000,000
Umbrella Liability:		
Each Occurrence/Aggregate	$	2,000,000
Workers Compensation & Employers' Liability:		
Each Accident/Disease	$	1,000,000
Automobile Liability:		
Combined Single Limit	$	1,000,000

There was no significant reduction in coverage during the year. Settlement amounts have not exceeded coverage amounts during the prior three fiscal years.

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 Medical and Dental Benefits

The School carries their medical and dental insurance through Anthem and their dental and vision insurance through AlwaysCare. The School pays 70% of medical, dental and vision benefits for most employees. The School's pays 100% of medical, dental and vision benefits for eligible full-time administrative staff. The annual cost of medical insurance is based upon gender and age.

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 Schools 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.

Note 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.

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required pension contribution to SERS was $45,331 for fiscal year 2015 of which the entire amount has been paid.

Note 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 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.

Note 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. 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, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $113,583 for fiscal year 2015. Of this amount, $30,336 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, 2014, 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	$534,486	$1,271,589	$1,806,075
Proportion of the Net Pension Liability	0.01056100%	0.00522783%	
Pension Expense	$31,432	$58,746	$90,178

Note 8 – Defined Benefit Pension Plans (Continued)

At June 30, 2015, 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	$4,549	$12,242	$16,791
School contributions subsequent to the measurement date	45,331	113,583	158,914
Total Deferred Outflows of Resources	$49,880	$125,825	$175,705
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$86,749	$235,249	$321,998
Total Deferred Inflows of Resources	$86,749	$235,249	$321,998

$158,914 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, 2016.

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:			
2016	($20,538)	($55,752)	($76,290)
2017	(20,538)	(55,752)	(76,290)
2018	(20,538)	(55,752)	(76,290)
2019	(20,586)	(55,751)	(76,337)
Total	($82,200)	($223,007)	($305,207)

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.

<u>Note 8 – Defined Benefit Pension Plans (Continued)</u>

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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	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 inflation
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	$762,553	$534,486	$342,662

Note 8 – Defined Benefit Pension Plans (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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	2 percent simple applied as follows: for members retiring before
(COLA)	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, 2014, 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 %	

Note 8 – Defined Benefit Pension Plans (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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	$1,820,419	$1,271,589	$807,464

Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. The Board's liability is 6.2% of wages paid.

Note 9 – Post-employment Benefits

A. School Employees Retirement System

Postemployment Benefits – 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, 2015, the health care allocation is .82%. 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 2015, the minimum compensation level was established at $20,450. 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 years ended June 30, 2015, 2014 and 2013 were $9,076, $5,883, and $5,648, respectively. The entire amount has been contributed for fiscal years 2014 and 2013. For 2015, only 31% of the amount has been contributed. The remaining balance is reported as an intergovernmental payable.

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.

Note 9 – Post-employment Benefits (Continued)

B. State Teachers Retirement System

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 2015, 2014 and 2013 were $0, $5,485, and $5,154, respectively. The entire amount has been contributed for each fiscal year.

Note 10 – Restricted Net Position

At June 30, 2015, the School reported restricted net position totaling $61,414. The nature of the net position restrictions are as follows:

Food Services	$58,087
Other Grants	3,327
Total	$ 61,414

Note 11 – Contingencies

A. Grants 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, 2015, 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.

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, the School 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.

As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

Note 12 – Operating Leases

On April 9, 2012, the School entered into a lease agreement with GE Capital Solutions for a second copier. The lease terms call for a monthly payment of $166 for 36 months. During the fiscal year, payments on this lease totaled $1,660.

Note 13 – Contracted Fiscal Services

The School is a party to a fiscal services agreement with Mangen & Associates (M&A) School Resource Center, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A School Resource Center will perform the following functions for the School:

1. Standard Treasurer Services, including general ledger entries, basic record keeping required documents for state and federal governments, and basic accounting reports to Director and Board.

Note 13 – Contracted Fiscal Services (Continued)

2. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource call support.

3. Basic SIS/DASL/CSADM/EMIS Services, including setup, maintenance, and input of Student and Staff data directly into the EMIS subsystem. In addition, M&A will input all school provided attendance, classroom, test scores and all other required student information into the SIS/DASL system.

In addition, Mangen & Associates provides various business and operations support services to the School. The total fee paid to Mangen and Associates for all of these services during fiscal year 2015 was $144,709.

Note 14 – Purchased Services

During the fiscal year ended June 30, 2015, other purchased service expenses for services rendered by various vendors were as follows:

Instructional Improvement	$ 27,214
Legal Services	22,017
Other Professional and Technical Services	570,935
Garbage Removal and Cleaning	45,190
Repairs and Maintenance Services	32,285
Rentals	8,458
Other Property Services	21,851
Meeting and Travel Expenses	4,060
Postage	460
Advertising	22,553
Other Communication Services	1,560
Utilities	57,687
Printing and Binding	7,743
Transportation Services	4,131
Total	$ 826,144

Note 15 – Change in Accounting Principles and Restatement of Net Position

For fiscal year 2015, the School implemented *GASB Statement No. 69 "Government Combinations and Disposals of Government Operations"* which provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2015, the School also implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." These Statements established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of these pronouncements had the following effect on net position as reported June 30, 2014:

Net Position June 30, 2014	527,308
Adjustments:	
Net Pension Liability	(2,142,738)
Deferred Outflows - Payments Subsequent to Measurement Date	121,634
Restated Net Position June 30, 2014	(1,493,796)

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.

REQUIRED SUPPLEMENTARY INFORMATION

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

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

LAST 2 FISCAL YEARS (1)

	2014	2013
School's Proportion of the Net Pension Liability	0.010561%	0.010561%
School's Proportionate Share of the Net Pension Liability	$ 534,486	$ 628,029
School's Covered-Employee Payroll	$ 308,024	$ 292,371
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	173.52%	214.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School's measurement date which is the prior fiscal year end.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

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

LAST 2 FISCAL YEARS (1)

	2014	2013
School's Proportion of the Net Pension Liability	0.00522783%	0.00522783%
School's Proportionate Share of the Net Pension Liability	$ 1,271,589	$ 1,514,709
School's Covered-Employee Payroll	$ 548,457	$ 515,412
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	231.85%	293.88%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School's measurement date which is the prior fiscal year end.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST SIX FISCAL YEARS (1)

	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	$ 45,331	$ 42,692	$ 40,465	$ 37,784	$ 25,226	$ 8,520
Contributions in relation to the contractually required contribution	$ 45,331	$ 42,692	$ 40,465	$ 37,784	$ 25,226	$ 8,520
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 343,935	$ 308,024	$ 292,371	$ 280,918	$ 200,684	$ 62,925
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

(1) Fiscal year 2010 was the School's first year of operation.

L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST SIX FISCAL YEARS (1)

	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	$ 113,583	$ 71,299	$ 67,004	$ 51,268	$ 49,182	$ 18,838
Contributions in relation to the contractually required contribution	$ 113,583	$ 71,299	$ 67,004	$ 51,268	$ 49,182	$ 18,838
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 811,306	$ 548,457	$ 515,412	$ 394,366	$ 378,323	$ 144,908
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

(1) Fiscal year 2010 was the School's first year of operation.

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L. HOLLINGWORTH SCHOOL FOR THE TALENTED AND GIFTED
LUCAS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FEDERAL GRANTOR ***Pass Through Grantor*** **Program Title**	**Federal CFDA Number**	**Receipts**	**Expenditures**
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	$ 45,962	$ 44,425
National School Lunch Program	10.555	129,322	124,996
Total Child Nutrition Cluster		175,284	169,421
Farm to School Grant	10.574	3,908	2,112
Fresh Fruit and Vegetable Program	10.582	690	
Total U.S. Department of Agriculture		179,882	171,533
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Special Education Grants to States (IDEA Part B)	84.027	65,361	63,751
Title I Grants to Local Educational Agencies	84.010	296,093	298,082
Limited English Proficiency	84.365	(454)	(1,934)
Improving Teacher Quality State Grants	84.367	1,756	1,631
Total U.S. Department of Education		362,756	361,530
Total Federal Awards Receipts and Expenditures		**$ 542,638**	**$ 533,063**

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports L. Hollingworth School for Talented and Gifted's (the School's) federal award programs' receipts and expenditures. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the School to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

L. Hollingworth School for Talented and Gifted
Lucas County
653 Miami Street
Toledo, Ohio 43605

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 L. Hollingworth School for Talented and Gifted, Lucas County, Ohio (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 22, 2016, wherein we noted the School adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68.*

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 communication is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

March 22, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

L. Hollingworth School for Talented and Gifted
Lucas County
653 Miami Street
Toledo, Ohio 43605

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited L. Hollingworth School for Talented and Gifted, Lucas County, Ohio's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect L. Hollingworth School for Talented and Gifted's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School's major federal program.

Management's Responsibility

The School's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for the School's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

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

Opinion on the Major Federal Program

In our opinion, L. Hollingworth School for Talented and Gifted complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

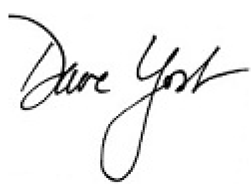
Report on Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance**.**

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 22, 2016

L. HOLLINGWORTH SCHOOL FOR TALENTED AND GIFTED
LUCAS COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	CFDA # 84.010 Title I
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

L. HOLLINGWORTH SCHOOL FOR TALENTED AND GIFTED

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 7, 2016