



Dave Yost • Auditor of State

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dayton Regional STEM School, Montgomery 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 August 9, 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
Auditor of State
Columbus, Ohio

August 9, 2017

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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

Financial Highlights

Wright State University made payments on behalf of the School of \$2,896,802 to various vendors, which is an increase of \$267,008 over the prior fiscal year.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the School did financially during fiscal year 2016. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and change in net position. This change in net position is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net position for fiscal year 2016 compared to fiscal year 2015.

**(Table 1)
Net Position**

	2016	2015	Increase (Decrease)
Assets:			
Current Assets	\$3,138,039	\$2,440,160	\$697,879
Capital Assets, Net	8,065,725	8,210,690	(144,965)
Total Assets	<u>11,203,764</u>	<u>10,650,850</u>	<u>552,914</u>
Deferred Outflows of Resources:			
Pension	<u>\$16,799</u>	<u>\$6,043</u>	<u>\$10,756</u>
Liabilities:			
Current Liabilities	865,042	946,974	(81,932)
Non-Current Liabilities:			
Net Pension Liability	79,498	60,529	18,969
Other Amounts	<u>3,631,667</u>	<u>3,886,667</u>	<u>(255,000)</u>
Total Liabilities	<u>4,576,207</u>	<u>4,894,170</u>	<u>(317,963)</u>

(Continued)

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)**

**(Table 1)
Net Position
(Continued)**

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Deferred Inflows of Resources:			
Pension	2,634	9,824	(7,190)
Net Position:			
Net Investment in Capital Assets	4,180,725	4,094,023	86,702
Restricted	580,054	415,961	164,093
Unrestricted	1,880,943	1,242,915	638,028
Total Net Position	<u>\$6,641,722</u>	<u>\$5,752,899</u>	<u>\$888,823</u>

The net pension liability (NPL) is reported pursuant to GASB statement 68, "Accounting and Financial Reporting for Pensions – an Amendment o GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension 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.

GASB 68 requires the net pension liability to equal the School's proportionate share of the State Employee Retirement System's (SERS) plan's:

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.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)**

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 the SERS plan's change in net pension liability not accounted for as deferred inflows/outflows.

Current assets increased \$697,879 due primarily to cash and cash equivalents increasing by \$619,090. Cash and Cash Equivalents increased due to an increase in other grants and State foundation payments received. Other grants increased due to the increase in payments on behalf of the School paid by Wright State University. State foundation payments increased due to enrollment increasing from the previous fiscal year. Current liabilities decreased \$81,932 due to a decrease in accounts payable. Non-current liabilities decreased \$236,031 due to the current year's payment on the capital lease. Unrestricted Net Position increased \$638,028 due to revenues exceeding expenditures.

Table 2 shows the changes in net position for fiscal year 2016 compared to fiscal year 2015.

**(Table 2)
Change in Net Position**

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Sales	\$116,689	\$190,479	(\$73,790)
State Foundation	4,311,491	4,144,849	166,642
Tuition and Fees	115,082	115,640	(558)
Donations	60,613	27,378	33,235
Miscellaneous	33,247	63,629	(30,382)
Total Operating Revenues	<u>4,637,122</u>	<u>4,541,975</u>	<u>95,147</u>
Operating Expenses:			
Purchased Services	6,639,216	5,814,463	824,753
Materials and Supplies	283,729	678,012	(394,283)
Depreciation	167,044	171,931	(4,887)
Total Operating Expenses	<u>7,089,989</u>	<u>6,664,406</u>	<u>425,583</u>
Operating Loss	<u>(2,452,867)</u>	<u>(2,122,431)</u>	<u>(330,436)</u>
Non-Operating Revenues (Expenses):			
Federal and State Grants	435,182	333,691	101,491
Other Grants	2,896,802	2,629,794	267,008
Gifts and Donations	221,675	234,118	(12,443)
Interest	805	124	681
Rent	47,460	47,160	300
Interest and Fiscal Charges	(260,234)	(277,710)	17,476
Total Non-Operating Revenues (Expenses)	<u>3,341,690</u>	<u>2,967,177</u>	<u>374,513</u>
Change in Net Position	<u>888,823</u>	<u>844,746</u>	<u>44,077</u>
Net Position at Beginning of Year	<u>5,752,899</u>	<u>4,908,153</u>	<u>844,746</u>
Net Position at End of Year	<u>\$6,641,722</u>	<u>\$5,752,899</u>	<u>\$888,823</u>

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)**

The School's business-type activities consist of enterprise activity. STEM schools receive no support from taxes.

Other grants increased due to on-behalf payments made by Wright State University. Purchased services increased due to increased professional and technical services expenses as well as the increase in the on behalf payments by Wright State University. The School's State foundation increased from the previous year because of an increase in enrollment.

Capital Assets

At the end of fiscal year 2016, the School had \$8,065,725 invested in capital assets, net of depreciation. For more information on capital assets see Note 5 to the basic financial statements.

Debt

At the end of fiscal year 2016, the School had \$3,885,000 in long-term obligations outstanding due to a capital lease. For more information on debt see Notes 9 and 10 to the basic financial statements.

Contacting the School's Financial Management

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

Dayton Regional STEM School
Statement of Net Position
June 30, 2016

Assets:

Current Assets:

Equity in Pooled Cash	\$1,681,342
Intergovernmental Receivables	101,697
Cash Held in Escrow with Trustee	1,130,000
Cash Held in Segregated Accounts	225,000
<i>Total Current Assets</i>	3,138,039

Non-Current Assets:

Nondepreciable Assets	824,870
Depreciable Capital Assets, Net	7,240,855
<i>Total Non-Current Assets</i>	8,065,725
<i>Total Assets</i>	11,203,764

Deferred Outflows of Resources:

Pension	16,799
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Liabilities:

Current Liabilities:

Accounts Payable	78,846
Intergovernmental Payable	7,863
Unavailable Revenue	525,000
Capital Leases Payable	253,333
<i>Total Current Liabilities</i>	865,042

Non-Current Liabilities:

Capital Leases Payable	3,631,667
Net Pension Liability	79,498
<i>Total Non-Current Liabilities</i>	3,711,165

Total Liabilities

4,576,207

Deferred Inflows of Resources:

Pension	2,634
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Net Position:

Net Investment in Capital Assets	4,180,725
Restricted for State and Federal Grants	148,138
Restricted for Food Service	9,488
Restricted for Student Activities	22,428
Restricted for Debt Service	400,000
Unrestricted	1,880,943
<i>Total Net Position</i>	\$6,641,722

See accompanying notes to the basic financial statements

Dayton Regional STEM School
Statement of Revenues, Expenses, and Changes in Net Position
For The Fiscal Year Ended June 30, 2016

Operating Revenues:	
Sales	\$116,689
State Foundation	4,311,491
Tuition and Fees	115,082
Donations	60,613
Miscellaneous	33,247
<i>Total Operating Revenues</i>	<u>4,637,122</u>
Operating Expenses:	
Purchased Services	6,639,216
Materials and Supplies	283,729
Depreciation	167,044
<i>Total Operating Expenses</i>	<u>7,089,989</u>
<i>Operating Loss</i>	<u>(2,452,867)</u>
Non-Operating Revenues (Expenses):	
Federal and State Grants	435,182
Other Grants	2,896,802
Gifts and Donations	221,675
Interest	805
Rent	47,460
Interest and Fiscal Charges	(260,234)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>3,341,690</u>
<i>Change in Net Position</i>	888,823
<i>Net Position at Beginning of Year</i>	<u>5,752,899</u>
<i>Net Position at End of Year</i>	<u><u>\$6,641,722</u></u>

See accompanying notes to the basic financial statements

Dayton Regional STEM School
Statement of Cash Flows
For The Fiscal Year Ended June 30, 2016

Increase in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Sales	\$116,689
Cash Received from State of Ohio	4,315,636
Cash Received from Donations	60,613
Cash Received from Students	115,082
Cash Received from Miscellaneous Sources	33,247
Cash Payments to Suppliers for Goods and Services	<u>(6,989,687)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(2,348,420)</u></u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	314,748
Other Grants Received	2,896,802
Rent	47,460
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u><u>3,259,010</u></u>

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(22,079)
Interest and Fiscal Charges	(38,559)
Capital Lease Principal Payments	<u>(231,667)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u><u>(292,305)</u></u>

Cash Flows from Investing Activities:

Interest	<u>805</u>
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Net Increase in Cash and Cash Equivalents 619,090

Cash at Beginning of Year 2,417,252

Cash at End of Year \$3,036,342

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss	<u>(\$2,452,867)</u>
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Adjustments to Reconcile Operating

Loss to Net Cash Used for Operating Activities:

Depreciation	167,044
Decrease (Increase) in Assets:	
Intergovernmental Receivable	4,145
Increase (Decrease) in Liabilities:	
Accounts Payable	(66,286)
Intergovernmental Payable	(1,479)
Contractually Required Contributions	(6,801)
Pension Expense	<u>7,824</u>

Total Adjustments 104,447

Net Cash Used for Operating Activities (\$2,348,420)

Non-Cash Transactions:

The School had outstanding intergovernmental receivables related to non-operating grants of \$101,697 at June 30, 2016.

During fiscal year 2016, the School had \$525,000 in unearned revenue outstanding.

See accompanying notes to the basic financial statements

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**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

The School operates under a 14 member, self-appointed, Governing Board that consists of representatives of the regional organizations that were partnered to establish the School and shall not exceed 15 members. The Governing Board is responsible for adopting policies and procedures that govern the School and supervising the School principal.

The School participates in two jointly governed organizations. These organizations are presented in Note 11 to the basic financial statements. These organizations are:

Jointly Governed Organizations:
Metropolitan Educational Technology Association (META)
Southwestern Ohio Educational Purchasing Council

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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.

During the fiscal year, the School segregates transactions related to certain School functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the School uses a single enterprise fund presentation.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise fund reporting focuses on the determination of the change in net position, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of a School's financial transactions is determined by the School's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. Within this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The statement of cash flows provides information about how the School finances and meets its cash flow needs.

C. Basis of Accounting

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

D. Revenues – Exchange and Non-Exchange Transactions

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

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

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statements 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 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 government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, deferred inflows of resources are reported on the government-wide statement of net position for pension. The deferred inflows of resources related to pension are explained in Note 6.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Expenses

Expenses are recognized at the time they are incurred.

G. Pension

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

H. Equity in Pooled Cash

The School's Treasurer accounts for all monies received by the School. The School maintains two interest bearing depository accounts and one non-interest bearing account and all funds of the School are maintained in this account. These accounts are presented on the statement of net position as "Equity in Pooled Cash". The School did not have any investments during fiscal year 2016.

I. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not 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 capitalized.

All reported capital assets are depreciated, except land. 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	40 years
Furniture, Fixtures and Equipment	5 - 20 years

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported on the statement of net position.

K. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

L. Net Position

Net position represents the difference between all other elements in a statement of financial position. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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.

The School applies restricted resources when an expense is incurred for purposes for 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 of the School. These revenues are primarily foundation payments from the State. Revenue related to Wright State University has been reported as Other Grants (non-operating). Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

N. Budgetary Process

Unlike other public schools located in the State of Ohio, STEM schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705. Ohio Revised Code 5705.391 does not require the School to prepare a five-year projection but the STEM school did prepare one in fiscal year 2016.

O. 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.

3. DEPOSITS

Monies held by the School are classified by State statute into three categories.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

3. DEPOSITS (Continued)

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

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental receivables. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Special Education	\$7,508
Title I	71,816
Title II-A	22,373
Total Intergovernmental Receivable	\$101,697

5. CAPITAL ASSETS

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

	Balance 6/30/15	Additions	Deletions	Balance 6/30/16
Capital Assets Not Being Depreciated:				
Land	\$824,870			\$824,870
Capital Assets Being Depreciated:				
Buildings and Improvements	7,811,389			7,811,389
Furniture, Fixtures and Equipment	118,033	\$22,079		140,112
Total Capital Assets				
Being Depreciated	7,929,422	22,079		7,951,501
Less Accumulated Depreciation:				
Buildings and Improvements	(451,955)	(156,228)		(608,183)
Furniture, Fixtures and Equipment	(91,647)	(10,816)		(102,463)
Total Accumulated Depreciation	(543,602)	(167,044)		(710,646)
Total Capital Assets Being Depreciated, Net	7,385,820	(144,965)		7,240,855
Total Capital Assets, Net	\$8,210,690	(\$144,965)	\$0	\$8,065,725

6. DEFINED BENEFIT PENSION PLANS

A. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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.

All of the School's teaching personnel are employees of Wright State University. These employees are covered under Wright State University's retirement system. All other employees of the School are covered by the School Employees Retirement System of Ohio, therefore the School does not contribute to the State Teachers Retirement System of Ohio.

B. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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. No allocation was made to the Health Care Fund.

The School's contractually required contributions to SERS were \$6,801 for fiscal year 2016.

C. 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
Proportion of the Net Pension Liability Prior Measurement Date	0.00119600%
Proportion of the Net Pension Liability Current Measurement Date	0.00139320%
Change in Proportionate Share	0.00019720%
Proportionate Share of the Net Pension Liability	\$79,498
Pension Expense	\$7,824

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

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(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

	SERS
Deferred Outflows of Resources	
Differences between expected and actual experience	\$1,280
Changes in proportionate Share and difference between School contributions and proportionate share of contributions	8,718
School contributions subsequent to the measurement date	6,801
Total Deferred Outflows of Resources	\$16,799
Deferred Inflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$2,634

\$6,801 reported as deferred outflows of resources related to pension resulting from the School's 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
Fiscal Year Ending June 30:	
2017	\$1,828
2018	1,828
2019	1,822
2020	1,886
Total	\$7,364

D. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.00 %</u>	

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.

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(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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	\$110,234	\$79,498	\$53,614

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 7.5 percent. Although the exact amount of these changes is not known, the impact to the School's net pension liability is expected.

7. POST-EMPLOYMENT BENEFITS

School Employees Retirement System

Health Care Plan Description – The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School's surcharge obligation was \$494.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$1,090, and \$567, respectively. The full amount has been contributed for all three fiscal years.

8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. During fiscal year 2016, the School participated in the Southwestern Ohio Educational Purchasing Council (Note 11) for liability, fleet, and property insurance.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage since the prior fiscal year.

9. LEASES

A. Capital Lease

In a prior fiscal year, the School entered into a capitalized lease for land and buildings and improvements. Capital assets acquired by lease have been capitalized in the statement of net position in the amount of \$4,579,035. A corresponding liability was recorded on the statement of net position. Principal payments in fiscal year 2016 totaled \$231,667.

The assets acquired through the capital lease are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Land	\$824,870		\$824,870
Buildings and Improvements	3,754,165	(\$371,991)	3,382,174
Totals	\$4,579,035	(\$371,991)	\$4,207,044

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016.

Fiscal Year Ending June 30,	Total Payments
2017	\$463,616
2018	456,167
2019	441,867
2020	429,233
2021	436,279
2022-2026	3,044,021
Total	5,271,183
Less: Amount Representing Interest	(1,386,183)
Present Value of Net Minimum Lease Payments	\$3,885,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

9. LEASES (Continued)

B. Operating Lease

During the prior fiscal year, the School entered into a non-cancelable operating lease. The School made payments of \$17,916 during fiscal year 2016. The future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$17,916
2018	17,916
2019	17,916
2020	17,916
Total	<u>\$71,664</u>

10. LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2016 were as follows:

	<u>Outstanding 6/30/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/16</u>	<u>Due Within One Year</u>
Leases Payable	\$4,116,667		\$231,667	\$3,885,000	\$253,333
Net SERS Pension Liability	60,529	\$18,969		79,498	
Total Governmental Activities Long-Term Liabilities	<u>\$4,177,196</u>	<u>\$18,969</u>	<u>\$231,667</u>	<u>\$3,964,498</u>	<u>\$253,333</u>

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

The School District pays obligations relating to employee compensation from the funds benefitting their service. For additional information related to the net pension liability see note 6.

11. JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Educational Technology Association

On July 1, 2015 the School was a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA). On January 1, 2016 MDECA merged with the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice president and nine board members who represent the members of META. The board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. Prior to the merger, the School paid MDECA \$2,986. After the merger, the School paid META \$2,992 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Southwestern Ohio Educational Purchasing Council

The School participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of 132 school districts and educational service centers in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. The Council exercises total control over the operations of the coalition including budgeting, appropriating, contracting and designating management. Each school district's degree of control is limited to its representation on the Board. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2016, the School paid \$16,038 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

12. RELATED PARTY TRANSACTIONS

The School contracts with Wright State University to utilize certain personnel and other resources. During fiscal year 2016, the Wright State University paid \$2,896,802 from grants received from various sources on behalf of the School for personnel (all teaching and administrative personnel are employees of Wright State University); pension and retirement benefits; supplies and purchased services.

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

13. CONTINGENCIES

A. Grants

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. However, 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.

B. School Foundation

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts 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, 2016 Foundation funding for the school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

14. PURCHASED SERVICES

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

Professional and Technical Services	\$3,415,457
Travel	2,970
Property Services	239,420
Communication	34,605
Wright State University	2,884,103
Other	62,661
Total	<u>\$6,639,216</u>

15. AGREEMENT WITH WRIGHT STATE UNIVERSITY

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

A. WSU Personnel

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

B. Responsibility for and Compensation of Personnel

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

C. Personnel Employed by WSU

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

D. WSU Resources

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

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(Continued)**

15. AGREEMENT WITH WRIGHT STATE UNIVERSITY (Continued)

E. School Property

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

F. Insurance

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

G. Reimbursement for Personnel and Resources

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

H. Records and Invoicing

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

I. Payment of Invoice

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

**DAYTON REGIONAL STEM SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

15. AGREEMENT WITH WRIGHT STATE UNIVERSITY (Continued)

J. Termination

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

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Dayton Regional STEM School
 Required Supplementary Information
 Schedule of the School's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's Proportion of the Net Pension Liability	0.00139320%	0.00119600%	0.00119600%
School's Proportionate Share of the Net Pension Liability	\$79,498	\$60,529	\$71,122
School's Covered-Employee Payroll	\$41,943	\$39,555	\$30,481
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.54%	153.02%	233.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

Dayton Regional STEM School
Required Supplementary Information
Schedule of School Contributions
School Employees Retirement System of Ohio
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$6,801	\$5,528	\$4,815	\$4,219
Contributions in Relation to the Contractually Required Contribution	<u>(6,801)</u>	<u>(5,528)</u>	<u>(4,815)</u>	<u>(4,219)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
School Covered-Employee Payroll	\$48,579	\$41,943	\$39,555	\$30,481
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	12.17%	13.84%

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



Dave Yost • Auditor of State

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

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

To the 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 Dayton Regional STEM School, Montgomery County, (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 August 9, 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*.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State
Columbus, Ohio

August 9, 2017



Dave Yost • Auditor of State

DAYTON REGIONAL STEM SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 5, 2017**