



Dave Yost • Auditor of State

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Change in Net Position	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Required Supplementary Information	
Schedule of School's Proportionate Share of the Net Pension Liability – School Employees Retirement System of Ohio).....	33
Schedule of School's Proportionate Share of the Net Pension Liability – State Teachers Retirement System of Ohio	34
Schedule of School Contributions – School Employees Retirement System of Ohio	35
Schedule of School Contributions – State Teachers Retirement System of Ohio	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	37
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	39

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Dayton SMART Bilingual Academy, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dayton SMART Bilingual Academy, 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 June 22, 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

June 22, 2017

Dayton SMART Bilingual Academy
Montgomery County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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

Financial Highlights

Key financial highlights for the School are as follows:

- Total net position of the School decreased \$294,749 in fiscal year 2016. Ending net position of the School was negative \$1,173,538, compared with negative \$878,789 at June 30, 2015.
- Total assets decreased by \$49,114 and total liabilities increased by \$249,448 from the prior fiscal year end.

Using this Annual Financial Report

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

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

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

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

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

Dayton SMART Bilingual Academy
Montgomery County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Financial Analysis

Table 1 provides a summary of the School's net position at June 30, 2016 compared to prior fiscal year.

Table 1
Net Position at Year End

	2016	Restated 2015
Assets:		
Current and Other Assets	\$ 31,881	\$ 19,483
Capital Assets, Net	774,207	835,719
Total Assets	<u>806,088</u>	<u>855,202</u>
Deferred Outflows of Resources	<u>680,459</u>	<u>758,971</u>
Liabilities:		
Current Liabilities	1,669,382	1,562,862
Noncurrent Liabilities	938,518	795,590
Total Liabilities	<u>2,607,900</u>	<u>2,358,452</u>
Deferred Inflows of Resources	<u>52,185</u>	<u>134,510</u>
Net Position:		
Net Investment in Capital Assets	(30,078)	(5,598)
Restricted	166	-
Unrestricted	(1,143,626)	(873,191)
Total Net Position	<u>\$ (1,173,538)</u>	<u>\$ (878,789)</u>

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

Current Liabilities increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of an increase in accounts payable due to insufficient cash flows.

Noncurrent Liabilities also increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of an increase in the net pension liability, as reported by the pension systems.

Dayton SMART Bilingual Academy
Montgomery County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Financial Analysis

The total net position reported for fiscal year 2016 decreased by \$294,749. Table 2 shows the change in net position for the fiscal year ended June 30, 2016 compared to prior fiscal year.

Table 2
Changes in Net Position

	<u>2016</u>	<u>Restated 2015</u>
Operating Revenues:		
Unrestricted Grants-in-Aid	\$ 680,746	\$ 616,749
Restricted Grants-in-Aid	121,318	73,610
Total Operating Revenues	<u>802,064</u>	<u>690,359</u>
Operating Expenses:		
Salaries and Wages	421,544	364,891
Fringe Benefits	279,927	256,700
Purchased Services	421,137	373,324
Materials and Supplies	51,965	48,845
Depreciation	63,918	55,641
Other	23,966	20,227
Total Operating Expenses	<u>1,262,457</u>	<u>1,119,628</u>
Operating Loss	<u>(460,393)</u>	<u>(429,269)</u>
Nonoperating Revenues (Expenses)		
Federal and State Grants	187,736	174,043
Donations and Contributions	-	482
Other Nonoperating Revenues	2,438	5,997
Interest Expense	(24,530)	(9,385)
Total Nonoperating Revenues (Expenses)	<u>165,644</u>	<u>171,137</u>
Change in Net Position	(294,749)	(258,132)
Net Position, Beginning of Year, Restated	(878,789)	(620,657)
Net Position, End of the Year	<u>\$ (1,173,538)</u>	<u>\$ (878,789)</u>

Operating Revenues increased in fiscal year 2016 compared with the prior fiscal year primarily due to an increase in enrollment from 87 students in fiscal year 2015 to 92 students in fiscal year 2016.

The significant increase in Operating Expenses is primarily the result of a significant increase in Salaries and Wages Expense. The School incurred more Salaries and Wages Expense in fiscal year 2016 as a result of an increase in full time teaching personnel in fiscal year 2016.

Dayton SMART Bilingual Academy
Montgomery County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Capital Assets

At the end of fiscal year 2016, the School had \$774,207 invested in Capital Assets, Net, a decrease of \$61,512 in comparison with the prior fiscal year. This decrease represents the amount by which current year depreciation, totaling 63,918, exceeded current year additions, totaling \$2,406. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's notes payable balance was \$1.2 million, a decrease of \$95,021 in comparison with the prior fiscal year-end. This decrease represents principle payments of \$118,671 offset by additions of \$23,650. See Note 6 of the basic financial statements for additional details.

Current Financial Issues

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

Contacting the School

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

**Dayton SMART Bilingual Academy
MONTGOMERY COUNTY**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

Assets:

Current Assets	
Cash and Cash Equivalents	\$ 2,572
Intergovernmental Receivable	24,967
Prepaid Items	1,000
Security Deposit	3,342
Total Current Assets	<u>31,881</u>
Noncurrent Assets	
Capital Assets, Net	<u>774,207</u>
Total Noncurrent Assets	<u>774,207</u>
Total Assets	<u><u>806,088</u></u>

Deferred Outflows of Resources:

Pension	<u>680,459</u>
---------	----------------

Liabilities:

Current Liabilities	
Accounts Payable	401,200
Accrued Wages and Benefits Payable	25,846
Intergovernmental Payable	10,712
Notes Payable	1,231,624
Total Current Liabilities	<u>1,669,382</u>
Long-Term Liabilities:	
Notes Payable	19,902
Net Pension Liability	918,616
Total Long-Term Liabilities	<u>938,518</u>
Total Liabilities	<u><u>2,607,900</u></u>

Deferred Inflows of Resources:

Pension	52,185
---------	--------

Net Position:

Net Investment in Capital Assets	(30,078)
Restricted	166
Unrestricted	(1,143,626)
Total Net Position	<u><u>\$ (1,173,538)</u></u>

See accompanying notes to the basic financial statements.

**Dayton SMART Bilingual Academy
MONTGOMERY COUNTY**

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

Operating Revenues:	
Unrestricted Grants in Aid	\$ 680,746
Restricted Grants in Aid	121,318
Total Operating Revenues	<u>802,064</u>
 Operating Expenses:	
Salaries	421,544
Fringe Benefits	279,927
Purchased Services	421,137
Materials and Supplies	51,965
Depreciation	63,918
Other	23,966
Total Operating Expenses	<u>1,262,457</u>
 Operating Loss	 <u>(460,393)</u>
 Non-Operating Revenues (Expenses):	
Federal and State Grants	187,736
Other Non-Operating Revenue	2,438
Interest Expense	(24,530)
Total Non-Operating Revenues (Expenses)	<u>165,644</u>
 Change in Net Position	 (294,749)
 Net Position Beginning of Year, Restated	 <u>(878,789)</u>
Net Position End of Year	<u><u>\$ (1,173,538)</u></u>

See accompanying notes to the basic financial statements.

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

Cash Flows from Operating Activities:	
Received from Foundation Payments	\$ 670,680
Received from Disadvantaged Pupil Impact Aid	121,318
Payments to Suppliers for Goods and Services	(316,153)
Payments to Employees for Services and Benefits	(517,443)
Payments to Other	(24,911)
Net Cash Used for Operating Activities	<u>(66,509)</u>
Cash Flows from Noncapital Financing Activities:	
Received from Federal and State Grants	183,356
Received from Loan	20,900
Other Non-Operating Receipts	2,438
Principal Paid on Loan	(39,154)
Interest Paid on Loan	(12,846)
Net Cash Provided by Noncapital Financing Activities	<u>154,694</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(2,406)
Principal Paid on Loans/Note	(79,517)
Interest Paid on Loans/Note	(8,934)
Net Cash Used for Capital and Related Financing Activities	<u>(90,857)</u>
Net Decrease in Cash and Cash Equivalents	(2,672)
Cash and Cash Equivalents at Beginning of Year	<u>5,244</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,572</u>

See accompanying notes to the basic financial statements.

Dayton SMART Bilingual Academy
MONTGOMERY COUNTY

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

Reconciliation of Operating Loss to Net Cash	
Used for Operating Activities:	
Operating Loss	\$ (460,393)
Adjustments to Reconcile Operating Loss to Net	
Cash Used for Operating Activities:	
Depreciation	63,918
Changes in Assets and Liabilities:	
Accounts Receivable	340
Intergovernmental Receivable	(10,030)
Prepaid Items	(1,000)
Accounts Payable	156,184
Accrued Wages and Benefits Payable	2,664
Intergovernmental Payable	3,789
Net Pension Liability and	
Deferred Outflows & Deferred Inflows - Pension	178,019
Net Cash Used for Operating Activities	<u><u>\$ (66,509)</u></u>

See accompanying notes to the basic financial statements.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School was approved for operation under contract with the Ohio Council of Community Schools (the Sponsor) commencing July 1, 2013 and expiring on June 30, 2016. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School paid the Sponsor a 3% sponsorship fee based on State Foundation revenue, which totaled \$23,136 in fiscal year 2016. The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 12).

The School operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 3 non-certified and 9 certificated full time teaching personnel who provide services to 92 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

E. Capital Assets

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

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

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/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.

G. Cash and Cash Equivalents

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

H. Compensated Absences

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

I. Pensions

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.

J. Net Position

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

K. Operating Revenues and Expenses

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Estimates

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

NOTE 3 – DEPOSITS

At June 30, 2016, the carrying amount of the School’s deposits was \$2,572 and the bank balance was \$12,170. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, the School’s bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. A summary of intergovernmental receivables follows:

<u>Funding Source</u>	<u>Amount</u>
Federal Grants:	
Food Service	\$ 10,009
Title I	4,336
Foundation Underpayment	10,622
Total Intergovernmental Receivables:	<u>\$ 24,967</u>

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Land Improvements	\$ 23,500	\$ -	\$ -	\$ 23,500
Building Improvements	717,087	-	-	717,087
Furniture, Fixtures, and Equipment	18,468	2,406	-	20,874
Vehicles	156,108	-	-	156,108
Total Capital Assets	<u>915,163</u>	<u>2,406</u>	<u>-</u>	<u>917,569</u>
Less Accumulated Depreciation:				
Land Improvements	(3,525)	(2,350)	-	(5,875)
Building Improvements	(42,482)	(28,684)	-	(71,166)
Furniture, Fixtures, and Equipment	(8,859)	(6,146)	-	(15,005)
Vehicles	(24,578)	(26,738)	-	(51,316)
Total Accumulated Depreciation	<u>(79,444)</u>	<u>(63,918)</u>	<u>-</u>	<u>(143,362)</u>
Capital Assets, Net	<u>\$ 835,719</u>	<u>\$ (61,512)</u>	<u>\$ -</u>	<u>\$ 774,207</u>

NOTE 6 – LONG TERM OBLIGATIONS

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Mangen Note	\$ 805,992	\$ 23,650	\$ (42,485)	\$ 787,157	\$ 787,157
Hubert Note	444,717	-	(39,154)	405,563	405,563
Bus Loans	95,838	-	(37,032)	58,806	38,904
Total	<u>\$ 1,346,547</u>	<u>\$ 23,650</u>	<u>\$ (118,671)</u>	<u>\$ 1,251,526</u>	<u>\$ 1,231,624</u>

In fiscal year 2014, the School entered into a promissory note with Joann and Ed Hubert Family Foundation for operations. The note was approved for \$450,000. The School renegotiated the terms of the note, extending the maturity date to June 30, 2016. The note carries an interest rate of 3%.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 6 – LONG TERM OBLIGATIONS (continued)

In fiscal year 2014, the School entered into a promissory note with Mangen Family Foundation for operations and capital improvements. The note carried an interest rate of 0% and a maturity date of June 30, 2015. In fiscal year 2016, the School drew additional funds on the note and renegotiated the terms, extending the maturity dated to June 30, 2016. The note carries an interest rate of 3%.

On August 27, 2013, the School borrowed \$78,468 to finance the purchase of a school bus. The note carried an interest rate of 4.64% and a maturity date of August 27, 2016.

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

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

Fiscal Year Ended June 30:	Principal	Interest	Total
2017	1,231,624	42,834	1,274,458
2018	19,902	19,902	39,804
Total	<u>1,251,526</u>	<u>62,736</u>	<u>1,314,262</u>

NOTE 7 – RISK MANAGEMENT

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

Coverages are as follows:

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

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 7 – RISK MANAGEMENT (continued)

Worker’s Compensation

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

Ohio Revised Code limits the 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.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

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 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefit:	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30, or \$86.00 multiplied by the years of service credit. 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. There was no amount allocated to the Health Care Fund for fiscal year 2016.

The School’s contractually required pension contribution to SERS was \$15,007 for fiscal year 2016. Of this amount, \$1,658 is reported as an intergovernmental payable.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

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.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

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 contribution requirement of plan members and employers are established and may be amended by the STRS’ Retirement Board. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$44,009 for fiscal year 2016. Of this amount, \$6,911 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$104,895	\$813,721	\$918,616
Proportion of the Net Pension Liability	0.00183830%	0.00294431%	
Pension Expense	\$29,231	\$207,804	\$237,035

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$1,601	\$36,675	\$38,276
Changes in proportionate share	66,321	516,846	583,167
School contributions subsequent to the measurement date	<u>15,007</u>	<u>44,009</u>	<u>59,016</u>
Total Deferred Outflows of Resources	<u>\$82,929</u>	<u>\$597,530</u>	<u>\$680,459</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$1,791</u>	<u>\$50,394</u>	<u>\$52,185</u>
Total Deferred Inflows of Resources	<u>\$1,791</u>	<u>\$50,394</u>	<u>\$52,185</u>

\$59,016 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$21,231	\$157,738	\$178,969
2018	21,231	157,738	178,969
2019	21,661	157,743	179,404
2020	<u>2,008</u>	<u>29,908</u>	<u>31,916</u>
Total	<u>\$66,131</u>	<u>\$503,127</u>	<u>\$569,258</u>

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.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including 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:

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

<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>	

*10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

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	\$145,452	\$104,895	\$70,743

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Schools District’s net pension liability is expected to be significant.

Actuarial Assumptions - STRS

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

*10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$1,130,320	\$813,721	\$545,990

NOTE 9 – POSTEMPLOYMENT BENEFITS

a. School Employees Retirement System

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

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

School contributions assigned to health care for the years ended June 30, 2016, 2015 and 2014 were \$1,809, \$1,449, and \$871, respectively. The entire amount has been contributed for fiscal year 2015 and 2014 while 0 percent has been contributed for fiscal year 2016.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)

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

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

b. State Teachers Retirement System of Ohio

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

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

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

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

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

The School's contractually required health care contributions to STRS for fiscal years 2016, 2015 and 2014 were \$0, \$0 and \$2,955, respectively. The entire amount has been contributed for each fiscal year.

NOTE 10 – EMPLOYEE BENEFITS

Insurance Benefits

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all certified and non-certified employees. Health and Dental insurance coverage is provided through Anthem and Superior Dental Care.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 11 – PURCHASED SERVICES

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

Health Services	\$ 261
Other Professional and Technical Services	233,419
Repairs and Maintenance Services	17,326
Garbage Removal and Cleaning	34,583
Instructional Services	44
Other Property Services	4,096
Travel and Meeting Expense	2,036
Postage	490
Advertising	994
Utilities	47,715
Rentals	3,400
Contracted Food Services	<u>76,773</u>
Total	<u><u>\$ 421,137</u></u>

NOTE 12 – CONTRACTED FISCAL SERVICES

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

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

The School made \$34,985 payments during fiscal year 2016 but also had a liability for services of \$391,667 as of June, 30, 2016 which is included as part of accounts payable. As disclosed in Note 6, the School had \$787,157 of outstanding capital and operating notes with the Mangen Family Foundation at June 30, 2016. These notes carry a 3% interest rate.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 13 - CONTINGENCIES

a. Grants

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

b. State Funding

The Ohio Department of Education conducts reviews of enrollment data and Full Time Equivalency (FTE) calculations made by the schools. 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 results of ODE's FTE Adjustment #1 indicated the School was underpaid by \$10,622 during fiscal year 2016. This amount has been recorded as an intergovernmental receivable on the School's financial statements and will be received during fiscal year 2017 from foundation revenues. However, 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 will result in either a receivable to or liability of the School.

NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES

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

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

For fiscal year 2016, the School implemented GASB Statement No. 79 “*Certain External Investment Pools and Pool Participants*” which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have an effect on the financial statements of the School.

NOTE 15 – RESTATEMENT OF NET POSITION

In the School’s fiscal year 2015 financial statements, payments made on the Mangen note were not recorded as a reduction of the note payable but as expenses, resulting in overstated expenses. Because such amounts are the product of adjustments from a prior period, they are not properly included as part of the results of operations of the current period, rather are reported as a direct adjustment to beginning net position to restate those amounts to what they would have been. The effects of this adjustment on net position are as follows:

Net Position June 30, 2015	(902,832)
Adjustments:	
Current Liabilities - Notes Payable	24,043
Restated Net Position June 30, 2015	<u><u>(878,789)</u></u>

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association (META)

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 six board members who represent the members of META. The Board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each School's degree of control is limited to its representation on the Board. The School paid META \$3,610 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.

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

(Continued)

NOTE 17 – MANAGEMENT’S PLAN TO ADDRESS DEFICIT NET POSITION

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

At June 30, 2016, the Academy had a deficit unrestricted net position of \$(1,173,538). This negative net position is a direct result of continued start-up purchases of school furniture, technology equipment and curriculum required to support the School's growing instruction program, as well as necessary net position fluctuations as a direct result of the complex Fiscal Year 2016 GASB 68 procedures. Fortunately, the School's Management Team had experience with starting Ohio community schools without the benefit of State/Federal start-up grants and has developed a comprehensive long-range plan to eliminate the deficit balance.

The Management's plan includes four primary areas of focus: (1) grow current student enrollment, (2) continue return-on investment budgeting, (3) trim expenditures not directly tied to student learning growth and (4) continued focus on process improvements in school operations and instruction. By November 2015, the Management Team had succeeded in making progress in each of these four priority areas. The School's enrollment improved significantly from FY15 to FY16, the use of ROI budgeting is in place for all spending requests, expenditures are evaluated for impact on student learning growth prior to approval and internal auditing is conducted on a quarterly basis to ensure continued process improvements. The DSBA Team (Board, Management, Teachers and Staff) will continue directing a significant amount of time and energy toward making stronger family connections to expand the awareness of the Academy’s high academic performance and grow future student enrollment. In addition, financial planning will continue to focus on ROI confirmation for all purchases, trimming costs through process improvements and continued spending restrictions for any purchases not directly aligned to the Academy’s instruction program.

During fiscal year 2016, the School remained current on all outstanding payables with the exception of its Management Company, Mangan & Associates (M&A). The amount owed to M&A at June 30, 2016 included reimbursements for payments made by M&A to vendors on behalf of DSBA for continued school start-up purchases and contracted service fees. The objective for fiscal year 2017 through 2020 is to pay off a portion of the amount owed to M&A, the Mangan Family Foundation and the Hubert Family Foundation when cash flow is adequate to cover these payments while leaving enough cash to sustain a high-quality instruction program for DSBA students. The School’s Board adopted a five-year balanced budget for FY17-FY20 which includes a plan for the sustaining payments toward the loan balance to the Mangan Family Foundation and the Hubert Family Foundation and the M&A outstanding payable.

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

**DAYTON SMART BILINGUAL ACADEMY
MONTGOMERY COUNTY**

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

NOTE 18 – SUBSEQUENT EVENTS

On July 26, 2016, the Board approved new terms for the promissory notes with the Mangen Family Foundation and the Joann and Ed Hubert Family Foundation.

The Mangen Note carries an interest rate of 3% and requires monthly principal and interest payments of \$3,000 on or before the 15th of each month. The maturity date is June 30, 2017.

The Hubert Note carries an interest rate of 4% and requires monthly principal and interest payments of \$5,000 on or before the 15th of each month. The maturity date is June 30, 2017.

This page intentionally left blank.

**Dayton SMART Bilingual Academy
MONTGOMERY COUNTY**

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

LAST TWO FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>
School's Proportion of the Net Pension Liability	0.001838%	0.001565%
School's Proportionate Share of the Net Pension Liability	\$ 104,895	\$ 79,204
School's Covered-Employee Payroll	\$ 56,137	\$ 45,467
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	186.86%	174.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%

(1) Information prior to 2014 is not available.

**Dayton SMART Bilingual Academy
MONTGOMERY COUNTY**

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

LAST TWO FISCAL YEARS (1)

	2015	2014
School's Proportion of the Net Pension Liability	0.002944%	0.002703%
School's Proportionate Share of the Net Pension Liability	\$ 813,721	\$ 657,580
School's Covered-Employee Payroll	\$ 310,503	\$ 295,471
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	262.07%	222.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%

(1) Information prior to 2014 is not available.

**Dayton SMART Bilingual Academy
MONTGOMERY COUNTY**

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST THREE FISCAL YEARS (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 15,007	\$ 7,399	\$ 6,302
Contributions in relation to the contractually required contribution	<u>15,007</u>	<u>7,399</u>	<u>6,302</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered-employee payroll	\$ 107,196	\$ 56,137	\$ 45,467
Contributions as a percentage of covered- employee payroll	14.00%	13.18%	13.86%

(1) Information prior to 2014 is not available.

**Dayton SMART Bilingual Academy
MONTGOMERY COUNTY**

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST THREE FISCAL YEARS (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 44,009	\$ 43,470	\$ 38,411
Contributions in relation to the contractually required contribution	<u>44,009</u>	<u>43,470</u>	<u>38,411</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 314,348	\$ 310,503	\$ 295,471
Contributions as a percentage of covered- employee payroll	14.00%	14.00%	13.00%

(1) Information prior to 2014 is not available.



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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Dayton SMART Bilingual Academy, Montgomery County, (the School) as of and for the year ended June 30, 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 June 22, 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 "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

June 22, 2017



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Dayton SMART Bilingual Academy (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated March 23, 2015, we noted the Board adopted an anti-harassment policy on February 28, 2013. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. The Board amended the policy on January 27, 2015. We inspected the amended policy, noting it still does not include the following requirement listed in Ohio Rev. Code 3313.666.
 - (1) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely to assist the Board in evaluating whether (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

June 22, 2017



Dave Yost • Auditor of State

**DAYTON SMART ELEMENTARY SCHOOL DBA DAYTON BILINGUAL ACADEMY
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 18, 2017**