



Dave Yost • Auditor of State

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY
JUNE 30, 2017 AND 2016**

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**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY
JUNE 30, 2017 AND 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Buckeye Online School for Success
Columbiana County
119 East Fifth Street
East Liverpool, Ohio 43920

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Buckeye Online School for Success, Columbiana County, Ohio (the "School"), as of and for the years ended June 30, 2017 and 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 Schools 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 the Buckeye Online School for Success, Columbiana County, Ohio, as of June 30, 2017 and 2016, and changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements for the fiscal year ended June 30, 2017 and Note 15 to the financial statements for the fiscal year ended June 30, 2016, the Ohio Department of Education (ODE) conducted a Full-Time Equivalency (FTE) review over student FTE amounts reported by the School for the year ended June 30, 2016. As a result of the review, ODE made a determination that the School overstated FTE amounts for the year and ODE may require repayment of up to \$5 million. As of the date of this letter, the School is in the appeals process regarding this matter. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2018, 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 30, 2018

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The management's discussion and analysis of the Buckeye Online School for Success' (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. 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 2017 are as follows:

- In total, net position was a deficit of \$8,838,820 at June 30, 2017.
- The School had operating revenues of \$5,719,121 and operating expenses of \$6,644,287 for fiscal year 2017. The School also received \$779,101 in Federal and State grants during fiscal year 2017. The total change in net position for the fiscal year was a decrease of \$169,602.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets plus deferred outflows, liabilities plus deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the School finances and is meeting the cash flow needs of its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Academy's net pension liability.

The table below provides a summary of the School's net position for fiscal years 2017 and 2016.

	Net Position	
	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets	\$ 953,217	\$ 672,684
Capital assets, net	<u>1,560,260</u>	<u>1,554,407</u>
Total assets	<u>2,513,477</u>	<u>2,227,091</u>
<u>Deferred outflows of resources</u>	<u>1,948,466</u>	<u>939,622</u>
<u>Liabilities</u>		
Current liabilities	918,149	689,032
Non-current liabilities:		
Due within one year	72,754	391,954
Net pension liability	11,396,056	10,045,506
Other amounts due in more than one year	<u>282,148</u>	<u>-</u>
Total liabilities	<u>12,669,107</u>	<u>11,126,492</u>
<u>Deferred inflows of resources</u>	<u>631,656</u>	<u>709,439</u>
<u>Net Position</u>		
Net investment in capital assets	1,205,358	1,162,453
Restricted	3,550	28,160
Unrestricted (deficit)	<u>(10,047,728)</u>	<u>(9,859,831)</u>
Total net position (deficit)	<u>\$ (8,838,820)</u>	<u>\$ (8,669,218)</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School's net position totaled a deficit of \$8,838,820. The cash balance of the school increased \$206,749 from \$515,035 to \$721,784. Non-current liabilities increased primarily because of the net pension liability increase of \$1,350,550. The overall change in net position was a decrease of \$169,602.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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

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

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

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2017 and 2016.

Change in Net Position

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues:</u>		
Foundation basic aid	\$ 4,444,799	\$ 5,354,362
Special education	1,274,049	1,310,887
Sales/charges for services	53	68
Other operating revenue	<u>220</u>	<u>392</u>
Total operating revenue	<u>5,719,121</u>	<u>6,665,709</u>
<u>Operating Expenses:</u>		
Salaries and wages	3,252,759	3,861,500
Fringe benefits	1,456,560	1,368,590
Purchased services	1,552,253	1,620,582
Materials and supplies	304,322	328,829
Depreciation	49,944	51,344
Other	<u>28,449</u>	<u>53,290</u>
Total operating expenses	<u>6,644,287</u>	<u>7,284,135</u>
<u>Non-operating revenues (expenses):</u>		
Federal and State operating grants	779,101	753,927
Contributions and donations	3,133	4,036
Loss on disposal of capital asset	(6,878)	-
Interest and fiscal charges	<u>(19,792)</u>	<u>(17,986)</u>
Total non-operating revenues (expenses)	<u>755,564</u>	<u>739,977</u>
Change in net position	(169,602)	121,551
Net position at beginning of year	<u>(8,669,218)</u>	<u>\$ (8,790,769)</u>
Net position at end of year	<u>\$ (8,838,820)</u>	<u>\$ (8,669,218)</u>

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation basic aid payments and special education payments attributed to 87.96% of total operating and non-operating revenues during fiscal year 2017. The School's Foundation basic aid combined with the special education payments decreased \$946,401 between 2017 and 2016 due to a decrease in enrollment from 898 students to 782 students. The School's operating expenses decreased \$639,848.

Capital Assets

At June 30, 2017, the School had \$1,560,260 invested in land, land improvements, buildings, furniture and equipment, and vehicles, net of accumulated depreciation. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Debt Administration

At June 30, 2017 the School had \$354,902 in capital leases and notes outstanding, of this amount \$72,754 is due within one year. See Note 8 in the notes to the basic financial statements for more detail on long-term obligations. The table that follows summarizes the long-term obligations outstanding:

Outstanding Debt, at June 30

	<u>2017</u>	<u>2016</u>
Capital lease obligation	\$ 41,183	\$ 4,257
Notes payable	<u>313,719</u>	<u>387,697</u>
Total	<u><u>\$ 354,902</u></u>	<u><u>\$ 391,954</u></u>

Current Financial Related Activities

During the 2016-2017 school year, there were 782 students enrolled in the School.

The School receives its finances mostly from State aid. In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact: Mr. Don Thompson, Executive Director, 119 East Fifth Street, East Liverpool, Ohio 43920.

**BASIC
FINANCIAL STATEMENTS**

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 721,784
Receivables:	
Accounts	63
Intergovernmental.	174,796
Prepayments	56,574
Total current assets	953,217

Non-current assets:

Land.	297,241
Depreciable capital assets, net	1,263,019
Total non-current assets.	1,560,260
Total assets.	2,513,477

Deferred outflows of resources:

Pension - STRS	1,479,496
Pension - SERS	468,970
Total deferred outflows of resources	1,948,466

Liabilities:

Current liabilities:

Accounts payable.	32,212
Accrued wages and benefits	471,781
Pension and postemployment obligation payable.	60,595
Intergovernmental payable	353,561
Total current liabilities	918,149

Non-current liabilities:

Due within one year.	72,754
Due in more than one year:	
Net pension liability.	11,396,056
Other amounts due in more than one year	282,148
Total non-current liabilities	11,750,958
Total liabilities	12,669,107

Deferred inflows of resources:

Pension - STRS	511,290
Pension - SERS	120,366
Total deferred inflows of resources	631,656

Net position:

Investment in capital assets.	1,205,358
Restricted for federal programs	3,550
Unrestricted.	(10,047,728)
Total net position.	\$ (8,838,820)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation revenue	\$ 4,444,799
Special education.	1,274,049
Sales/charges for services.	53
Other	220
Total operating revenues	<u>5,719,121</u>
Operating expenses:	
Salaries and wages.	3,252,759
Fringe benefits.	1,456,560
Purchased services.	1,552,253
Materials and supplies	304,322
Depreciation	49,944
Other.	28,449
Total operating expenses.	<u>6,644,287</u>
Operating loss.	<u>(925,166)</u>
Non-operating revenues (expenses):	
Federal and State operating grants.	779,101
Loss on disposal of capital assets	(6,878)
Contributions and donations	3,133
Interest and fiscal charges	(19,792)
Total nonoperating revenues (expenses)	<u>755,564</u>
Change in net position	(169,602)
Net position (deficit) at beginning of year.	<u>(8,669,218)</u>
Net position (deficit) at end of year	<u>\$ (8,838,820)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from state foundation	\$ 6,027,350
Cash received from sales/charges for services.	53
Cash received from other operations	220
Cash payments for salaries and wages.	(3,320,621)
Cash payments for fringe benefits	(1,232,932)
Cash payments for contractual services	(1,483,644)
Cash payments for materials and supplies	(301,462)
Cash payments for other expenses	(27,224)
	<hr/>
Net cash used in operating activities.	(338,260)
Cash flows from noncapital financing activities:	
Federal and state operating grants.	661,394
Contributions and donations.	3,133
	<hr/>
Net cash provided by noncapital financing activities.	664,527
Cash flows from capital and related financing activities:	
Gain on sale of capital assets.	1,388
Interest and fiscal charges	(19,792)
Note proceeds.	344,537
Principal retirement on note.	(418,515)
Principal retirement on capital lease	(9,173)
Acquisition of capital assets	(17,963)
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Net cash used in capital and related financing activities.	(119,518)
Net increase in cash and cash equivalents.	206,749
Cash and cash equivalents at beginning of year	515,035
Cash and cash equivalents at end of year	\$ 721,784
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Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (925,166)
Adjustments:	
Depreciation	49,944
Changes in assets and liabilities:	
Accounts receivable.	60,516
Intergovernmental receivable.	4,137
Prepayments.	(20,731)
Accounts payable.	(3,919)
Accrued wages and benefits.	(77,225)
Intergovernmental payable.	319,762
Pension obligation payable.	(9,501)
Deferred outflows - pension.	(1,008,844)
Deferred inflows - pension.	(77,783)
Net pension liability.	1,350,550
	<hr/>
Net cash used in operating activities	\$ (338,260)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE SCHOOL

Buckeye Online School for Success (the “School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School’s mission is to provide student-centered education in a professional and compassionate manner, utilizing appropriately licensed/certified staff to individualize educational strategies that will empower each student to succeed. The School, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Educational Service Center of Lake Erie West (the “Sponsor”) for a period of five years, for the period July 1, 2013 through June 30, 2018. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Fiscal Officer of the School (See Note 12).

The School operates under the direction of a Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the School’s one instructional/support facility staffed by 35 non-certified and 64 certified full-time teaching personnel who provide services to 782 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School’s significant 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 plus deferred outflows and all liabilities plus deferred inflows are included on the statements of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recognized 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 party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Revenue resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specific 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. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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, See Note 10 for deferred outflows of resources related the School's net pension liability.

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, See Note 10 for deferred inflows of resources related to the School's net pension liability.

E. 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 prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

F. Cash and Cash Equivalents

All monies received by the School are accounted for by the School's fiscal agent, the Educational Service Center of Lake Erie West. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

G. Capital Assets and Depreciation

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 acquisition values as of the date received. The School's capitalization threshold is \$5,000 for all asset classes. 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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5
Buildings	7 - 40
Furniture, fixtures and equipment	5
Vehicles	5

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program, State Special Education Program, Title I, IDEA-B grant, and Improving Teacher Quality program. Revenues from the State foundation program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility includes 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.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "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 improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

K. Estimates

The preparation of financial statements in conformity with GAAP 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.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

M. Federal Tax Exempt Status

On August 23, 2007, The School was granted status as an exempt organization under Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes. 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.

N. 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.

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NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2017, the School has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all School deposits was \$721,784. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$250,000 of the School’s bank balance of \$817,425 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$567,425 was exposed to custodial risk as discussed below.

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NOTE 4 - DEPOSITS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, consisted of accounts and intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectable in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	<u>Amount</u>
Medicaid	\$ 63,836
Ohio Bureau of Worker's Compensation	9,493
Title I School Improvement	26,909
Title I A	30,319
IDEA Part B	34,598
IDEA Early Childhood	396
Ohio Department of Education	<u>9,245</u>
Total intergovernmental receivables	<u>\$174,796</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance			Balance
	<u>06/30/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/17</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 297,241	\$ -	\$ -	\$ 297,241
Total capital assets, not being depreciated	<u>297,241</u>	<u>-</u>	<u>-</u>	<u>297,241</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	14,700	-	-	14,700
Building	1,611,784	-	-	1,611,784
Furniture and equipment	226,568	64,063	(20,666)	269,965
Vehicles	54,225	-	-	54,225
Total capital assets, being depreciated	<u>1,907,277</u>	<u>64,063</u>	<u>(20,666)</u>	<u>1,950,674</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(14,700)	-	-	(14,700)
Building	(379,642)	(38,750)	-	(418,392)
Furniture and equipment	(218,301)	(6,406)	12,400	(212,307)
Vehicles	(37,468)	(4,788)	-	(42,256)
Total accumulated depreciation	<u>(650,111)</u>	<u>(49,944)</u>	<u>12,400</u>	<u>(687,655)</u>
Capital assets, net	<u>\$ 1,554,407</u>	<u>\$ 14,119</u>	<u>\$ (8,266)</u>	<u>\$ 1,560,260</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In fiscal year 2013 and in the current year, the School entered into capital leases for copier equipment. Principal payments made totaled \$9,173 for fiscal year 2017.

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payments as of June 30, 2017:

Fiscal Year Ending <u>June 30,</u>	<u>Payments</u>
2018	\$ 10,188
2019	10,188
2020	10,188
2021	10,187
2022	<u>4,245</u>
Total future minimum lease payments	44,996
Less: amount representing interest	<u>(3,813)</u>
Present value of future minimum lease payments	<u>\$ 41,183</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. The changes in the School's long-term obligations during the year consist of the following:

	<u>Balance</u> <u>6/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/17</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Governmental activities:					
Notes payable	\$ 387,697	\$ 344,537	\$ (418,515)	\$ 313,719	\$ 64,055
Net pension liability	10,045,506	1,350,550	-	11,396,056	-
Capital lease obligation	<u>4,257</u>	<u>46,099</u>	<u>(9,173)</u>	<u>41,183</u>	<u>8,699</u>
Total governmental activities long-term liabilities	<u>\$ 10,437,460</u>	<u>\$ 1,741,186</u>	<u>\$ (427,688)</u>	<u>\$ 11,750,958</u>	<u>\$ 72,754</u>

See Note 7 for details on capital lease obligations.

See Note 10 for details on the net pension liability.

B. On December 14, 2007, the School borrowed a \$1,250,000 mortgage note payable from Huntington National Bank to acquire a building. The note bore a 7.75% interest rate and matured on December 14, 2012. On December 18, 2012, the School renewed the loan in the amount of \$723,810 with a 3.9% interest rate. On December 1, 2016, the School renewed the loan in the amount of \$344,537 with a 4.7% interest rate and monthly payments of \$6,463. The maturity date of the loan is December 3, 2021. Principal and interest payments were made by the School monthly.

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NOTE 9 - RISK MANAGEMENT

A. Insurance Coverage

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 2017, the School contracted with Selective Insurance for commercial general liability and automobile liability insurance.

Coverage	Limits of Coverage
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	3,000,000
Products-completed operations aggregate limit	3,000,000
Personal & advertising injury	1,000,000
Building	4,092,867
Personal property	410,415
 Automotive liability	 1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in coverage.

B. Workers' Compensation

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

C. Employee Medical, Dental and Vision Benefits

The School has contracted through independent agents to provide employee medical, dental, life, and vision insurance to its full time employees. The School pays a portion (between 90 and 92% depending on the policy option selected) of the monthly premiums for medical and all of the premium for dental, vision and life insurance. Employees opting out of the medical, dental and vision insurance receive a \$150 per month stipend. Employees opting out of just the medical insurance receive a \$75 stipend.

NOTE 10 - 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

The 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 pension and postemployment benefits payable on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$108,232 for fiscal year 2017.

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$346,485 for fiscal year 2017.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2016, 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03235180%	0.02966841%	
Proportion of the net pension liability current measurement date	<u>0.03028790%</u>	<u>0.02742287%</u>	
Change in proportionate share	<u>-0.00206390%</u>	<u>-0.00224554%</u>	
Proportionate share of the net pension liability	\$ 2,216,795	\$ 9,179,261	\$ 11,396,056
Pension expense	\$ 175,166	\$ 543,474	\$ 718,640

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 29,901	\$ 370,886	\$ 400,787
Net difference between projected and actual earnings on pension plan investments	182,854	762,125	944,979
Changes of assumptions	147,983	-	147,983
School contributions subsequent to the measurement date	<u>108,232</u>	<u>346,485</u>	<u>454,717</u>
Total deferred outflows of resources	<u>\$ 468,970</u>	<u>\$ 1,479,496</u>	<u>\$ 1,948,466</u>
Deferred inflows of resources			
Difference between School contributions and proportionate share of contributions/change in proportionate share	<u>\$ 120,366</u>	<u>\$ 511,290</u>	<u>\$ 631,656</u>
Total deferred inflows of resources	<u>\$ 120,366</u>	<u>\$ 511,290</u>	<u>\$ 631,656</u>

\$454,717 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	\$ 42,678	\$ 51,422	\$ 94,100
2019	42,551	51,423	93,974
2020	102,581	343,871	446,452
2021	<u>52,562</u>	<u>175,005</u>	<u>227,567</u>
Total	<u>\$ 240,372</u>	<u>\$ 621,721</u>	<u>\$ 862,093</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The 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:

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

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

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - 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 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	\$ 2,934,898	\$ 2,216,795	\$ 1,615,712

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (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, 2016, 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:

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

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	\$ 12,198,492	\$ 9,179,261	\$ 6,632,362

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School's NPL is expected to be significant.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. 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, 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 2017, none of the employer contribution 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 2017, this amount was \$23,500. 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 2017, the School's surcharge obligation was \$4,927.

The School's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$4,927, \$2,305, and \$12,441, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

Plan Description - The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The School did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 12 - FISCAL AGENT

The School entered into a fiscal services agreement with the Educational Service Center of Lake Erie West (the "ESC") to offer certain fiscal services and provide a Chief Fiscal Officer of the School. As part of this fiscal services agreement, the School shall compensate the ESC two and a half percent (2.5%) of the per pupil allotment paid to the School from the State of Ohio. On the April 18, 2013 Board meeting, the Board approved a five year fiscal services contract with the ESC. Total contract payments of \$134,572 in fiscal fees and \$129,766 in fiscal services fees were paid during fiscal year 2017. A liability of \$9,225 was accrued for fiscal fees for the fiscal year ended June 30, 2017.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the ESC or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of the School and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or the Officer's designee;
- Assist the School in meeting all financial reporting requirements established by the Auditor of the State of Ohio;
- Invest funds of the School in the same manner as the funds of the ESC are invested, but the Treasurer shall not commingle the funds with any of the ESC or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Office of the School so long as the proposed expenditure is within the approved budget and funds are available.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 13 - PURCHASED SERVICES

For fiscal year 2017, purchased services expenses were payments for services rendered by various vendors, as follows:

Professional and technical	\$ 943,607
Property services	63,963
Travel	16,828
Communications	251,989
Utilities	58,905
Contracts	6,382
Tuition	203,876
Other purchased services	<u>6,703</u>
Total	<u>\$ 1,552,253</u>

NOTE 14 - 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 are 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, 2017, if applicable, cannot be determined at this time.

B. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 14 – CONTINGENCIES – (Continued)

As of the date of this report, additional ODE adjustments for fiscal year 2017 are finalized, which resulted in the presentation of a liability on the School's financial statements.

Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017. The School appealed their fiscal year 2016 FTE review, which as of the date of this report, has not been settled. As a result, the impact of the appealed FTE Review on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in a liability of the School.

In addition, the School's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, the fiscal year 2016 FTE Review appeal is not finalized. Until ODE finalizes this appeal, the impact on the fiscal year 2017 financial statements related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in a receivable to the School.

NOTE 15 – SUBSEQUENT EVENT

As of July 1, 2017, the Educational Service Center of Lake Erie West is no longer the fiscal agent. Roberta Shirey, a current employee of the School, was hired as the Treasurer.

REQUIRED SUPPLEMENTARY INFORMATION

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**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.03028790%	0.03235180%	0.03360800%	0.03360800%
School's proportionate share of the net pension liability	\$ 2,216,795	\$ 1,846,025	\$ 1,700,882	\$ 1,998,560
School's covered-employee payroll	\$ 940,629	\$ 973,961	\$ 976,573	\$ 995,087
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.67%	189.54%	174.17%	200.84%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the School's measurement date which is the prior year-end.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.02742287%	0.29668410%	0.02967853%	0.02967853%
School's proportionate share of the net pension liability	\$ 9,179,261	\$ 8,199,481	\$ 7,218,846	\$ 8,599,042
School's covered-employee payroll	\$ 2,885,414	\$ 3,095,400	\$ 3,032,331	\$ 3,069,000
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	318.13%	264.89%	238.06%	280.19%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the School's measurement date which is the prior year-end.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 108,232	\$ 131,688	\$ 128,368	\$ 135,353	\$ 137,720
Contributions in relation to the contractually required contribution	<u>(108,232)</u>	<u>(131,688)</u>	<u>(128,368)</u>	<u>(135,353)</u>	<u>(137,720)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 773,086	\$ 940,629	\$ 973,961	\$ 976,573	\$ 995,087
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 154,276	\$ 200,452	\$ 182,048	\$ 125,181	\$ 107,151
<u>(154,276)</u>	<u>(200,452)</u>	<u>(182,048)</u>	<u>(125,181)</u>	<u>(107,151)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,147,033	\$ 1,594,686	\$ 1,344,520	\$ 1,272,165	\$ 1,091,151
13.45%	12.57%	13.54%	9.84%	9.82%

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 346,485	\$ 403,958	\$ 433,356	\$ 394,203	\$ 398,970
Contributions in relation to the contractually required contribution	<u>(346,485)</u>	<u>(403,958)</u>	<u>(433,356)</u>	<u>(394,203)</u>	<u>(398,970)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,474,893	\$ 2,885,414	\$ 3,095,400	\$ 3,032,331	\$ 3,069,000
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 405,229	\$ 421,003	\$ 326,598	\$ 292,345	\$ 217,380
<u>(405,229)</u>	<u>(421,003)</u>	<u>(326,598)</u>	<u>(292,345)</u>	<u>(217,380)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,117,146	\$ 3,238,485	\$ 2,512,292	\$ 2,248,808	\$ 1,672,154
13.00%	13.00%	13.00%	13.00%	13.00%

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

The management's discussion and analysis of the Buckeye Online School for Success' (the "School") 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 the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net position was a deficit of \$8,669,218 at June 30, 2016.
- The School had operating revenues of \$6,665,709 and operating expenses of \$7,284,135 for fiscal year 2016. The School also received \$753,927 in Federal and State grants during fiscal year 2016. The total change in net position for the fiscal year was an increase of \$121,551.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2016?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets plus deferred outflows, liabilities plus deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the School finances and is meeting the cash flow needs of its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the School's net pension liability.

The table below provides a summary of the School's net position for fiscal years 2016 and 2015.

	Net Position	
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets	\$ 672,684	\$ 766,949
Capital assets, net	<u>1,554,407</u>	<u>1,605,751</u>
Total assets	<u>2,227,091</u>	<u>2,372,700</u>
<u>Deferred outflows of resources</u>	<u>939,622</u>	<u>645,697</u>
<u>Liabilities</u>		
Current liabilities	689,032	779,747
Non-current liabilities:		
Due within one year	391,954	108,358
Net pension liability	10,045,506	8,919,728
Other amounts due in more than one year	<u>-</u>	<u>389,761</u>
Total liabilities	<u>11,126,492</u>	<u>10,197,594</u>
<u>Deferred inflows of resources</u>	<u>709,439</u>	<u>1,611,572</u>
<u>Net Position</u>		
Net investment in capital assets	1,162,453	1,107,632
Restricted	28,160	11,580
Unrestricted (deficit)	<u>(9,859,831)</u>	<u>(9,909,981)</u>
Total net position (deficit)	<u>\$ (8,669,218)</u>	<u>\$ (8,790,769)</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the School's net position totaled a deficit of \$8,669,218. The cash balance of the school decreased \$111,255 from \$626,290 to \$515,035. Non-current liabilities increased primarily because of the net pension liability increase of \$1,125,778. The overall change in net position was an increase of \$121,551.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

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

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

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

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

The table below shows the changes in net position for fiscal years 2016 and 2015.

Change in Net Position

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues:</u>		
Foundation basic aid	\$ 5,354,362	\$ 5,637,563
Special education	1,310,887	1,310,209
Sales/charges for services	68	-
Tuition and fees	-	12,546
Other operating revenue	<u>392</u>	<u>326</u>
Total operating revenue	<u>6,665,709</u>	<u>6,960,644</u>
<u>Operating Expenses:</u>		
Salaries and wages	3,861,500	4,215,997
Fringe benefits	1,368,590	1,483,428
Purchased services	1,620,582	1,674,042
Materials and supplies	328,829	492,255
Depreciation	51,344	63,891
Other	<u>53,290</u>	<u>46,617</u>
Total operating expenses	<u>7,284,135</u>	<u>7,976,230</u>
<u>Non-operating revenues (expenses):</u>		
Federal and State operating grants	753,927	772,047
Contributions and donations	4,036	4,225
Interest and fiscal charges	<u>(17,986)</u>	<u>(22,153)</u>
Total non-operating revenues (expenses)	<u>739,977</u>	<u>754,119</u>
Change in net position	121,551	(261,467)
Net position at beginning of year	<u>(8,790,769)</u>	<u>(8,529,302)</u>
Net position at end of year	<u><u>\$ (8,669,218)</u></u>	<u><u>\$ (8,790,769)</u></u>

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation basic aid payments and special education payments attributed to 89.78% of total operating and non-operating revenues during fiscal year 2016. The School's Foundation basic aid combined with the special education payments decreased \$282,523 between 2016 and 2015 due to a decrease in enrollment from 974 students to 898 students. The School's operating expenses decreased \$692,095.

Capital Assets

At June 30, 2016, the School had \$1,554,407 invested in land, land improvements, buildings, furniture and equipment, and vehicles, net of accumulated depreciation. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

Debt Administration

At June 30, 2016 the School had \$391,954 in capital leases and notes outstanding. The entire balance of both the notes and the capital lease obligations are due within one year. See Note 8 in the notes to the basic financial statements for more detail on long-term obligations. The table that follows summarizes the long-term obligations outstanding:

Outstanding Debt, at June 30

	<u>2016</u>	<u>2015</u>
Capital lease obligation	\$ 4,257	\$ 9,645
Notes payable	<u>387,697</u>	<u>488,474</u>
Total	<u>\$ 391,954</u>	<u>\$ 498,119</u>

Current Financial Related Activities

The School's financial relationship with the Educational Service Center of Lake Erie West as the School's fiscal agent greatly improves the internal control structure and quality of its financial records. During the 2015-2016 school year, there were 898 students enrolled in the School.

The School receives its finances mostly from State aid. In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact: Mr. Don Thompson, Executive Director, 119 East Fifth Street, East Liverpool, Ohio 43920.

**BASIC
FINANCIAL STATEMENTS**

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 515,035
Receivables:	
Accounts	60,579
Intergovernmental.	61,227
Prepayments	35,843
Total current assets	<u>672,684</u>
Non-current assets:	
Land.	297,241
Depreciable capital assets, net	1,257,166
Total non-current assets.	<u>1,554,407</u>
Total assets.	<u>2,227,091</u>
Deferred outflows of resources:	
Pension - STRS	777,769
Pension - SERS	161,853
Total deferred outflows of resources	<u>939,622</u>
Liabilities:	
Current liabilities:	
Accounts payable.	36,131
Accrued wages and benefits	549,006
Pension obligation payable.	70,096
Intergovernmental payable	33,799
Total current liabilities	<u>689,032</u>
Non-current liabilities:	
Due within one year.	391,954
Due in more than one year:	
Net pension liability.	10,045,506
Total non-current liabilities	<u>10,437,460</u>
Total liabilities	<u>11,126,492</u>
Deferred inflows of resources:	
Pension - STRS	592,354
Pension - SERS	117,085
Total deferred inflows of resources	<u>709,439</u>
Net position:	
Investment in capital assets.	1,162,453
Restricted for federal programs	28,160
Unrestricted.	(9,859,831)
Total net position.	<u>\$ (8,669,218)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

Operating revenues:	
Foundation revenue	\$ 5,354,362
Special education.	1,310,887
Sales/charges for services.	68
Other	392
Total operating revenues	<u>6,665,709</u>
Operating expenses:	
Salaries and wages.	3,861,500
Fringe benefits.	1,368,590
Purchased services.	1,620,582
Materials and supplies	328,829
Depreciation	51,344
Other.	53,290
Total operating expenses.	<u>7,284,135</u>
Operating loss.	<u>(618,426)</u>
Non-operating revenues (expenses):	
Federal and State operating grants.	753,927
Contributions and donations	4,036
Interest and fiscal charges	(17,986)
Total nonoperating revenues (expenses)	<u>739,977</u>
Change in net position	121,551
Net position (deficit) at beginning of year.	<u>(8,790,769)</u>
Net position (deficit) at end of year	<u><u>\$ (8,669,218)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 6,680,267
Cash received from sales/charges for services.	68
Cash received from other operations	392
Cash payments for salaries and wages.	(3,886,266)
Cash payments for fringe benefits	(1,491,836)
Cash payments for contractual services	(1,688,186)
Cash payments for materials and supplies	(335,109)
Cash payments for other expenses	(56,737)
	(777,407)
Net cash used in operating activities.	
Cash flows from noncapital financing activities:	
Federal and state operating grants.	786,267
Contributions and donations.	4,036
	790,303
Net cash provided by noncapital financing activities.	
Cash flows from capital and related financing activities:	
Interest and fiscal charges	(17,986)
Principal retirement on note.	(100,777)
Principal retirement on capital lease	(5,388)
	(124,151)
Net cash used in capital and related financing activities.	
Net decrease in cash and cash equivalents.	(111,255)
Cash and cash equivalents at beginning of year	626,290
Cash and cash equivalents at end of year	\$ 515,035
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (618,426)
Adjustments:	
Depreciation	51,344
Changes in assets and liabilities:	
Increase in accounts receivable	(35,522)
Increase in intergovernmental receivable	(5,381)
Increase in prepayments	(8,427)
Decrease in accounts payable.	(41,914)
Decrease in accrued wages and benefits.	(54,173)
Increase in intergovernmental payable	12,036
Decrease in pension obligation payable	(6,664)
Increase in deferred outflows - pension	(293,925)
Decrease in deferred inflows - pension.	(902,133)
Increase in net pension liability	1,125,778
	(777,407)
Net cash used in operating activities	\$ (777,407)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

Buckeye Online School for Success (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide student-centered education in a professional and compassionate manner, utilizing appropriately licensed/certified staff to individualize educational strategies that will empower each student to succeed. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Educational Service Center of Lake Erie West (the "Sponsor") for a period of five years, for the period July 1, 2013 through June 30, 2018. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Fiscal Officer of the School (See Note 12).

The School operates under the direction of a Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 30 non-certified and 78 certified full-time teaching personnel who provide services to 898 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant 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 plus deferred outflows and all liabilities plus deferred inflows are included on the statements of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recognized 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 party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Revenue resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specific 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. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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, See Note 10 for deferred outflows of resources related the School's net pension liability.

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, See Note 10 for deferred inflows of resources related to the School's net pension liability.

E. 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 prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

F. Cash and Cash Equivalents

All monies received by the School are accounted for by the School's fiscal agent, the Educational Service Center of Lake Erie West. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

G. Capital Assets and Depreciation

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 values as of the date received. The School's capitalization threshold is \$5,000 for all asset classes. 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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5
Buildings	7 - 40
Furniture, fixtures and equipment	5
Vehicles	5

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program, State Special Education Program, Title I, IDEA-B grant, School Improvement Stimulus and Improving Teacher Quality program. Revenues from the State foundation program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility includes 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.

I. Prepaid Items

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

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "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 improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

K. Estimates

The preparation of financial statements in conformity with GAAP 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.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

M. Federal Tax Exempt Status

On August 23, 2007, The School was granted status as an exempt organization under Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes. 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.

N. 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.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2016, the School has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 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 GASB Statement No. 79 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all School deposits was \$515,035. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$250,000 of the School's bank balance of \$637,224 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$387,224 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 5 - RECEIVABLES

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

Intergovernmental receivables:	<u>Amount</u>
Medicaid	\$ 155
Title IA	25,418
Title IIA	12,778
Ohio Department of Education	<u>22,876</u>
Total intergovernmental receivables	<u>\$ 61,227</u>

NOTE 6 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/16</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 297,241	\$ -	\$ -	\$ 297,241
Total capital assets, not being depreciated	<u>297,241</u>	<u>-</u>	<u>-</u>	<u>297,241</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	14,700	-	-	14,700
Building	1,611,784	-	-	1,611,784
Furniture and equipment	226,568	-	-	226,568
Vehicles	<u>54,225</u>	<u>-</u>	<u>-</u>	<u>54,225</u>
Total capital assets, being depreciated	<u>1,907,277</u>	<u>-</u>	<u>-</u>	<u>1,907,277</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(14,700)	-	-	(14,700)
Building	(340,892)	(38,750)	-	(379,642)
Furniture and equipment	(210,495)	(7,806)	-	(218,301)
Vehicles	<u>(32,680)</u>	<u>(4,788)</u>	<u>-</u>	<u>(37,468)</u>
Total accumulated depreciation	<u>(598,767)</u>	<u>(51,344)</u>	<u>-</u>	<u>(650,111)</u>
Capital assets, net	<u>\$ 1,605,751</u>	<u>\$ (51,344)</u>	<u>\$ -</u>	<u>\$ 1,554,407</u>

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 7 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In fiscal year 2013, the School entered into a capital lease for copier equipment. Principal payments made totaled \$5,388 for fiscal year 2016.

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

Fiscal Year Ending <u>June 30,</u>	<u>Payments</u>
2017	\$ 4,365
Total future minimum lease payments	4,365
Less: amount representing interest	(108)
Present value of future minimum lease payments	<u>\$ 4,257</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. The changes in the School's long-term obligations during the year consist of the following:

	<u>Balance</u> <u>6/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/16</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Governmental activities:					
Notes payable	\$ 488,474	\$ -	\$ (100,777)	\$ 387,697	\$ 387,697
Net pension liability	8,919,728	1,125,778	-	10,045,506	-
Capital lease obligation	<u>9,645</u>	<u>-</u>	<u>(5,388)</u>	<u>4,257</u>	<u>4,257</u>
Total governmental activities long-term liabilities	<u>\$ 9,417,847</u>	<u>\$ 1,125,778</u>	<u>\$ (106,165)</u>	<u>\$ 10,437,460</u>	<u>\$ 391,954</u>

See Note 7 for details on capital lease obligations.

See Note 10 for details on the net pension liability.

B. On December 14, 2007, the School borrowed a \$1,250,000 mortgage note payable from Huntington National Bank to acquire a building. The note bore a 7.75% interest rate and matured on December 14, 2012. On December 18, 2012, the School renewed the loan in the amount of \$723,810 with a 3.9% interest rate. The loan matures December 1, 2016 and requires 47 monthly payments of \$9,860 and a final payment of \$344,083. Principal and interest payments were made by the School monthly.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

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

NOTE 9 - RISK MANAGEMENT

A. Insurance Coverage

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 Selective Insurance for commercial general liability and automobile liability insurance.

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	3,000,000
Products-completed operations aggregate limit	3,000,000
Personal & advertising injury	1,000,000
Building	4,012,615
Personal property	402,368
 Automotive liability	 1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in coverage.

B. Workers' Compensation

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

C. Employee Medical, Dental and Vision Benefits

The School has contracted through independent agents to provide employee medical, dental, life, and vision insurance to its full time employees. The School pays 95 percent of the monthly premiums for medical and all of the premium for dental, vision and life insurance. Employees opting out of the medical, dental and vision insurance receive a \$150 per month stipend. Employees opting out of just the medical insurance receive a \$75 stipend.

NOTE 10 - 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

The 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 pension obligation payable on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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**

NOTE 10 - 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 entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$131,688 for fiscal year 2016.

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.

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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$403,958 for fiscal year 2016.

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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 1,846,025	\$ 8,199,481	\$ 10,045,506
Proportion of the net pension liability	0.03235180%	0.02966841%	
Pension expense	\$ 98,849	\$ 366,517	\$ 465,366

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 30,165	\$ 373,811	\$ 403,976
School contributions subsequent to the measurement date	<u>131,688</u>	<u>403,958</u>	<u>535,646</u>
Total deferred outflows of resources	<u>\$ 161,853</u>	<u>\$ 777,769</u>	<u>\$ 939,622</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 68,903	\$ 590,039	\$ 658,942
Changes in proportionate share	<u>48,182</u>	<u>2,315</u>	<u>50,497</u>
Total deferred inflows of resources	<u>\$ 117,085</u>	<u>\$ 592,354</u>	<u>\$ 709,439</u>

\$535,646 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (40,086)	\$ (133,763)	\$ (173,849)
2018	(40,086)	(133,763)	(173,849)
2019	(40,084)	(133,760)	(173,844)
2020	<u>33,336</u>	<u>182,743</u>	<u>216,079</u>
Total	<u>\$ (86,920)</u>	<u>\$ (218,543)</u>	<u>\$ (305,463)</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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - 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 22.00 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:

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FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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%)	Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 2,559,773	\$ 1,846,025	\$ 1,244,990

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:

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

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.

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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's proportionate share of the net pension liability	\$ 11,389,697	\$ 8,199,481	\$ 5,501,677

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. 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, 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, none of the employer contribution 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 \$2,305.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$2,305, \$12,441, and \$22,503, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

Plan Description - The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$30,690, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 13 - FISCAL AGENT

The School entered into a fiscal services agreement with the Educational Service Center of Lake Erie West (the "ESC") to offer certain fiscal services and provide a Chief Fiscal Officer of the School. As part of this fiscal services agreement, the School shall compensate the ESC two percent (2.0%) of the per pupil allotment paid to the School from the State of Ohio. On the April 18, 2013 Board meeting, the Board approved a five year fiscal services contract with the ESC. Total contract payments of \$139,218 in fiscal fees and \$131,319 in fiscal services fees were paid during fiscal year 2016. A liability of \$13,255 was accrued for fiscal fees for the fiscal year ended June 30, 2016.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the ESC or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of the School and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or the Officer's designee;
- Assist the School in meeting all financial reporting requirements established by the Auditor of the State of Ohio;
- Invest funds of the School in the same manner as the funds of the ESC are invested, but the Treasurer shall not commingle the funds with any of the ESC or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Office of the School so long as the proposed expenditure is within the approved budget and funds are available.

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

NOTE 14 - PURCHASED SERVICES

For fiscal year 2016, purchased services expenses were payments for services rendered by various vendors, as follows:

Professional and technical	\$ 1,204,335
Property services	67,841
Travel	20,086
Communications	208,179
Utilities	17,753
Contracts	15,702
Tuition	80,928
Other purchased services	<u>5,758</u>
Total	<u>\$ 1,620,582</u>

NOTE 15 - 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 are 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. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

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

NOTE 15 – CONTINGENCIES - Continued

Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2016. The School appealed their fiscal year 2016 FTE review, which as of the date of this report, has not been settled. As a result, the impact of the appealed FTE Review on the fiscal year 2016 financial statements is not determinable, at this time. Management believes this may result in a liability of the School.

In addition, the School's contract with their Sponsor requires payment based on revenues received from the State. As discussed above, the fiscal year 2016 FTE Review appeal is not finalized. Until ODE finalizes this appeal, the impact on the fiscal year 2016 financial statements related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in a receivable to the School.

NOTE 16 – SUBSEQUENT EVENT

As of July 1, 2017, the Educational Service Center of Lake Erie West is no longer the fiscal agent. Roberta Shirey, a current employee of the School, was hired as the Treasurer.

REQUIRED SUPPLEMENTARY INFORMATION

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability	0.03235180%	0.03360800%	0.03360800%
School's proportionate share of the net pension liability	\$ 1,846,025	\$ 1,700,882	\$ 1,998,560
School's covered-employee payroll	\$ 973,961	\$ 976,573	\$ 995,087
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	200.84%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	2015	2014	2013
School's proportion of the net pension liability	0.29668410%	0.02967853%	0.02967853%
School's proportionate share of the net pension liability	\$ 8,199,481	\$ 7,218,846	\$ 8,599,042
School's covered-employee payroll	\$ 3,095,400	\$ 3,032,331	\$ 3,069,000
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	238.06%	280.19%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 131,688	\$ 128,368	\$ 135,353	\$ 137,720	\$ 154,276
Contributions in relation to the contractually required contribution	<u>(131,688)</u>	<u>(128,368)</u>	<u>(135,353)</u>	<u>(137,720)</u>	<u>(154,276)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 940,629	\$ 973,961	\$ 976,573	\$ 995,087	\$ 1,147,033
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 200,452	\$ 182,048	\$ 125,181	\$ 107,151	\$ 84,094
<u>(200,452)</u>	<u>(182,048)</u>	<u>(125,181)</u>	<u>(107,151)</u>	<u>(84,094)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,594,686	\$ 1,344,520	\$ 1,272,165	\$ 1,091,151	\$ 787,397
12.57%	13.54%	9.84%	9.82%	10.68%

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 403,958	\$ 433,356	\$ 394,203	\$ 398,970	\$ 405,229
Contributions in relation to the contractually required contribution	<u>(403,958)</u>	<u>(433,356)</u>	<u>(394,203)</u>	<u>(398,970)</u>	<u>(405,229)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,885,414	\$ 3,095,400	\$ 3,032,331	\$ 3,069,000	\$ 3,117,146
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 421,003	\$ 326,598	\$ 292,345	\$ 217,380	\$ 143,016
<u>(421,003)</u>	<u>(326,598)</u>	<u>(292,345)</u>	<u>(217,380)</u>	<u>(143,016)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,238,485	\$ 2,512,292	\$ 2,248,808	\$ 1,672,154	\$ 1,100,123
13.00%	13.00%	13.00%	13.00%	13.00%

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.



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*

Buckeye Online School for Success
Columbiana County
119 East Fifth Street
East Liverpool, Ohio 43920

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 the Buckeye Online School for Success, Columbiana County, (the "School") as of and for the years ended June 30, 2017 and 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 30, 2018, wherein we noted the School is in an appeals process with the Ohio Department of Education (ODE) regarding the results of the June 30, 2016 Full-Time Equivalency review conducted by ODE.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

August 30, 2018

**BUCKEYE ONLINE SCHOOL FOR SUCCESS
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017 AND 2016**

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

FINDING NUMBER 2017-001

**Noncompliance and Material Weakness
Controls for Identifying and Removing Duplicate Time**

Ohio Rev. Code § 3314.08(C) provides the formula upon which community schools are funded on a full-time equivalency basis. In addition, **§ 3314.08(H)** requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The processes for calculating full-time equivalency and any enrollment for less than the equivalent of a full school year used by the Ohio Department of Education (ODE) under Ohio Rev. Code § 3314.08(H) are reflected in its 2017 FTE Review Manual available on its website. In order for the school to receive accurate funding under Ohio Rev. Code § 3314.08(C), the school should follow the procedures outlined in this 2017 FTE Review Manual.

Ohio Rev. Code § 3314.08(H)(3) states, in part, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours.

In *Electronic Classroom of Tomorrow v. Ohio Dept. of Edn.*, Slip Opinion No. 2018-OHIO-3126, the Supreme Court of Ohio stated, "R.C. 3314.08 is unambiguous and authorizes ODE to require an e-school to provide data of the duration of a student's participation to substantiate that school's funding."

Furthermore, Ohio Rev. Code **§ 3314.27 states**, each internet- or computer-based community school shall keep an accurate record of each individual student's participation in learning opportunities each day. The record shall be kept in such a manner that the information contained within it easily can be submitted to the department of education, upon request by the department or the auditor of state.

Per the **FY17 FTE Review Manual**, in order to avoid significant adjustments at the end of the year or during FTE Review, schools should estimate the student's "percent of time attended" upon enrollment, and document and follow a procedure to update the percent of time attended periodically. E-schools only receive credit for documented learning opportunities; missed days (both excused and unexcused absences) or assignments do not count as funded hours. A final adjustment will be made at the end of the school year to precisely reflect the student's documented hours of participation in learning opportunities. Ohio Department of Education (ODE) will continue to adjust the FTE used for the funding formula as the school updates its information throughout the year. At the close of the school's fiscal year end, ODE will reconcile the Final FTE Foundation payments and determine whether the school has a corresponding receivable from or payable due to ODE based upon the accumulation of student FTE's throughout the year. It is critical that schools accurately and timely report their student data to ODE in order for this reconciliation to be performed.

FINDING NUMBER 2017-001
(Continued)

The FY17 FTE Review Manual states that “eSchools may have systems that track learning opportunity participation that take place within the school’s online system. If an eSchool’s online system has this capability, then the school must produce Excel spreadsheets showing the daily/weekly/monthly accounting of learning opportunities and the final total of all online learning opportunities that the student participated in and were tracked by the eSchool’s system.”

Testing revealed the following:

- For fiscal year 2017 all five of the students tested had variances between the number of computer-based learning opportunities reported by the School and the number of computer-based learning opportunities determined by auditors. When combined with the number of nonclassroom-based learning opportunities reported by the School and limited to a maximum of 920 hours of overall learning opportunities for the year, three of the five students had variances for the number of hours reported by the School for funding and the number of hours determined by auditors. Two of these students’ variances resulted in the School over reporting duration, while one of the variances resulted in the School under reporting duration;
- For fiscal year 2016 all five of the students’ computer-based learning opportunities were reasonably supported. However, the School reported nonclassroom-based learning opportunities for four of the five students based on estimates and State mandated testing. The testing hours were insufficient in comprising the total number of nonclassroom-based learning opportunities reported by the School. When combining the number of computer-based and nonclassroom-based learning opportunities, one student of the five had an over reported duration; and
- During fiscal year 2016, the School used an application called iReady for additional math and reading hours. Data presented did not include beginning or ending times and had start and completion dates that spanned over more than one day. This data comprised about two percent of total online duration. This was corrected in fiscal year 2017.

In addition to the items above, two out of five students tested during fiscal year 2016 had two days of excused absences; however, proper support was not maintained. One of the two students did not have support for either excused absence, while the second student did not have support for one of the two excused absences. Documentation reviewed for fiscal year 2017 was fully compliant.

The Learning Management System (LMS) used by the School in fiscal year 2016 did not calculate duration or show aggregated times by day, week, month or year. In addition, the LMS did not have a forced log-out feature to stop tracking a student’s time after becoming idle. The School subsequently calculated duration for students during fiscal year 2016 using a method which included limiting the time between clicks to be counted at 45 minutes. Moreover, the School implemented a new LMS in fiscal year 2017 which featured a 15 minute forced log-out feature, resulting in a more conservative approach in reducing idle time and noneducational learning opportunities.

Failure of the School to support duration for all students could result in over-funding and possible repayment of funds to the ODE. In addition, failure to compile non-computer, non-classroom based time in accordance with the FTE manual could allow for duplication to go undetected. These situations could lead to the School reporting a higher FTE within EMIS for certain students and receiving more funding than entitled.

FINDING NUMBER 2017-001
(Continued)

The School should continue to work with the Sponsor, the Educational Service Center of Lake Erie West, to ensure the minimum 920 hours per year are being met and documented. In addition, the Sponsor should review the monthly FTE support and EMIS data that is to be submitted to ODE to allow the Sponsor to monitor compliance more effectively. The School should continue to refer to the current version of the FTE manual to ensure compliance with relevant funding guidance and requirement and should seek technical assistance from pertinent authorities as needed and appropriate. Finally, the School should review their policy governing student absences and ensure support is on file for each excused student absence.

ODE receives a copy of this audit report. As a result of this issue, they may subsequently perform a FTE review over future years potentially impacting school funding.

Officials' Response: The School has gone to great lengths, at significant expense, in modifying its data collection programs and tracking methods to develop a reasonable and compliant system for supporting student participation. It is well documented that the guidance and compliance requirements in this area have changed significantly since the start of fiscal year 2016. Although the after-the-fact application of new standards to existing data posed substantial challenges for the School, we note and appreciate the finding's recognition that the School's system reasonably supported claimed computer-based learning opportunities, and that the School is continually working to improve its practices and procedures. The School is grateful for the Auditor of State's willingness to work and meet with the School on multiple occasions to develop an understanding of the School and the significant changes implemented to improve its practices. Going forward, the School will continue to seek assistance from the Auditor of State and Ohio Department of Education as the responsible oversight authorities in this area while also assessing its procedures and systems to determine if reasonable modifications are necessary.

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BUCKEYE ONLINE SCHOOL FOR SUCCESS

COLUMBIANA 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
OCTOBER 18, 2018**