NORWOOD CONVERSION COMMUNITY SCHOOL
HAMILTON COUNTY

FINAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

NORWOOD CONVERSION COMMUNITY SCHOOL
HAMILTON COUNTY

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INDEPENDENT AUDITOR'S REPORT

Norwood Conversion Community School
Hamilton County
2060 Sherman Avenue
Norwood, Ohio 45212

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Norwood Conversion Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2017 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Norwood Conversion Community School, Hamilton County, Ohio, as of June 30, 2017, and the respective change in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 10 to the financial statements, the School dissolved on June 30, 2017. Note 10 describes Management's plan to transition the School's programs to Norwood City School District. The financial statements do not include any adjustments that might result from the outcome of this dissolution. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 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

Dave Yost
Auditor of State

Columbus, Ohio

March 8, 2018

Norwood Conversion Community School
Statement of Net Position - Cash Basis
June 30, 2017

	Norwood Conversion Community School
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$29,953
Total Assets	29,953
Net Position:	
Unrestricted	29,953
Total Net Position	$29,953

See accompanying notes to the basic financial statements.

Norwood Conversion Community School
Statement of Receipts, Disbursements and Changes in Net Position - Cash Basis
For the Fiscal Year Ended June 30, 2017

	Norwood Conversion Community School
Operating Receipts:	
Foundation Payments	$177,308
Total Operating Receipts	177,308
Operating Disbursements:	
Salaries	170,577
Fringe Benefits	34,069
Purchased Services	28,281
Materials and Supplies	1,840
Total Operating Disbursements	234,767
Change in Net Position	(57,459)
Net Position - Beginning of Year	87,412
Net Position - End of Year	$29,953

See accompanying notes to the basic financial statements.

Note 1 – Description of the School and Reporting Entity

Norwood Conversion Community School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under contract with the Norwood City School District (the Sponsor) for the period of July 1, 2016 through June 30, 2017. The School operates under a self-appointing five-member Board of Directors (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one certified teaching personnel and one non-certified support personnel who is used on an as needed basis. They provide services to an enrollment of 35 students. The School is limited to students who are residents of the Norwood City School District.

Note 2 – Summary of Significant Accounting Policies

These financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

The more significant of the School's accounting policies are described below.

Basis of Presentation

Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of receipts, disbursement, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The School uses a cash and cash equivalent measurement focus. The statement of receipts, disbursements and changes in net position presents increases (i.e., receipts) and decreases (i.e., disbursements) in cash and cash equivalent.

Basis of accounting refers to when receipts and disbursements are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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 School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Chapter 5705. The School is required to file a five year forecast each fiscal year.

Equity in Pooled Cash and Cash Equivalents

All monies received by the School are maintained in demand deposit accounts and recorded on the statement of net position as "Equity in Pooled Cash and Cash Equivalents."

Capital Assets and Depreciation

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School.

Employer Contributions to Cost-Sharing Pension Plans

The School recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Net position

Net cash position are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School does not report any restricted net position.

The School first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position are available.

Operating and Non-Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly by the School's primary mission as well as other charges for services and other operating receipts. For the School, operating receipts include foundation payments received from the State of Ohio. Operating disbursements are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating receipts and disbursements are those that are not generated directly by the School's primary mission. The District had no non-operating receipts and disbursements.

Intergovernmental Receipts

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period for which all eligibility requirements have been met. Foundation receipts received by the School during fiscal year 2017 were $177,308.

Estimates

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

Pensions

For purposes of measuring the net pension liability, 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.

Note 3 – Deposits

Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution.

As of June 30, 2017, none of the School's bank balance of $29,953 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name.

Note 4 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

Note 5 – Risk Management

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2017, the School has contracted with Liberty Mutual to provide insurance coverage in the following amounts:

Limits of Coverage	Carrier	Coverage	Deductible
General Liability:	Berry Insurance Group		
Bodily Injury & Property Damage		$1,000,000	None
Personal Injury/Advertising Liability		1,000,000	None
Products/Completed Operations		2,000,000	None
Employers Stop Gap Liability			
Bodily Injury by Accident - Each Accident		1,000,000	None
Bodily Injury by Disease - Policy Limit		1,000,000	None
Bodily Injury by Disease - Each Employee		1,000,000	None
Aggregate Limit		2,000,000	None
General Annual Aggregate		2,000,000	None
Fire Legal Liability		300,000	None
Medical Payments Occurrence/Aggregate		15,000	None
Educators' Legal Liability:	Berry Insurance Group		
Wrongful Acts Coverage per occurrence		1,000,000	$10,000
Wrongful Acts Coverage Aggregate		1,000,000	$10,000
Employee Benefits Liability		0	None
Automobile Liability:	Berry Insurance Group		
Non Owned & Hired Only - no scheduled autos		1,000,000	None
Medical Payments (occurrence/aggregate)		5,000	None
Uninsured/Underinsured Motorist		1,000,000	None
Automobile Physical Damage	Berry Insurance Group	ACV	250/500
Property:	Berry Insurance Group		
Building & Business Personal Property Limit		85,414,753	10,000
Earthquake		1,000,000	10%
Flood Limit (Zone A Excluded)		1,000,000	10%
Equipment Breakdown:	Berry Insurance Group	85,414,753	10,000
Employee Benefits:	Berry Insurance Group		
Each Employee		1,000,000	
Aggregate		3,000,000	
Sexual Misconduct/Molestation			
Each Loss		1,000,000	
Aggregate		1,000,000	
Innocent Party Defense		300,000	

Limits of Coverage	Carrier	Coverage	Deductible
Crime Coverage:	Berry Insurance Group		
Employee Dishonesty including Faithful Performance of Duty		$50,000	$0
Forgery or Alteration		50,000	0
Computer Fraud		0	0
Theft, Disappearance and Destruction		15,000	500

Settled claims have not exceeded this commercial coverage this past fiscal year.

Note 6 - Pension Plans

Net Pension Liability

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced 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 or $86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $203 for fiscal year 2017.

<u>Plan Description - State Teachers Retirement System (STRS)</u>

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service.

With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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, 2017, 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 2017 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was $31,039 for fiscal year 2017.

Net Pension Liability

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 Community School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the projected contributions of all participating entities. Since the Community School does not have a SERS or STRS employer code the proportionate share is not measurable or available.

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	3.50-18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	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	100.00 %	

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.

Actuarial Assumptions - STRS

The total pension liability in the July 1, 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, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in the June 30, 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:

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

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

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 the School's NPL is expected to be significant.

Note 7 - Post Employment Benefits

School Employees Retirement System of Ohio

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

Medicare Part B Plan
The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2015 was $104.90 for most participants, but could be as high as $335.70 depending on their income; SERS' reimbursement to retirees was $45.50.
The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2017, the actuarially required allocation was .74%. School contributions for the years ended June 30, 2017, 2016 and 2015 were $0, $14 and $12, respectively, which equaled the required contributions for this fiscal year.

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2017, the health care allocation was 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School contributions assigned to health care for the years ended June 30, 2017, 2016 and 2015 were $0, $0 and $2 respectively.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.* The report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources.*

State Teachers Retirement System of Ohio

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

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

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

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

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 0% of covered payroll was allocated to post-employment health care for the year ended June 30, 2017. The 14% employer contribution rate is the maximum rate established under Ohio law. The School contributions for the years ended June 30, 2017, 2016 and 2015 were $0, $0 and $276.

Note 8 – Litigation

The School is not currently party to any legal proceedings which would have a material impact on the financial statements.

Note 9 - Related Party Transaction

Norwood City School District (the District) sponsored the School in fiscal year 2017. The School began educating high school aged students who are credit deficient and are at risk of dropping out. It was anticipated that the School would enroll around 30 students in their first year. In reality, the School enrolled nearly 32 students in their first year and graduated 4 students. The School has a maximum of 35 students and they must be a resident in the Norwood City School District.

Note 10 – Subsequent Event/Dissolution of School

The School approved a Joint Resolution of Intent with the Norwood City School District to be dissolved at the end of the 2016-2017 school year. The School's programs were transitioned at the beginning of the 2017-2018 school year for the program to be directly operated as a program of Norwood City School District. Distribution of assets will be in accordance with the Ohio Department of Education termination agreement. See table below for the activity after the fiscal year end.

Receipts, Disbursements and Changes in Cash Balance - After Fiscal Year End

Receipts :	
Restitution	$35,019
Other Receipts	248
Total Receipts	35,267
Disbursements:	
Salaries	14,377
Fringe Benefits	2,893
Purchased Services	11,902
Total Disbursements	29,172
Change in Cash Balance	6,095
Cash Balance - July 1, 2017	29,953
Cash Balance - February 18, 2018	$36,048

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

Norwood Conversion Community School
Hamilton County
2060 Sherman Avenue
Norwood, Ohio 45212

To the Board of Directors:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the of the Norwood Conversion Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated March 8, 2018, wherein we noted the School uses a special purpose framework other than generally accepted accounting principles and wherein we noted the School closed effective June 30, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion**(s)** on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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

March 8, 2018

SCHEDULE OF FINDINGS
JUNE 30, 2017

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

FINDING NUMBER 2017-001

Noncompliance

Ohio Rev. Code, § 117.38, provides, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. The School did not prepare its annual report in accordance with generally accepted accounting principles. However, the School prepared its financial statements in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit, assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities, and disclosures that, while presumably material, cannot be reasonably determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School may be fined and subject to various other administrative remedies for its failure to file the required financial reports.

We recommend the School take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles to provide the users with more meaningful and useful financial statements.

Officials' Response:

The Norwood Conversion Community School (NCCS) financial records are maintained as an agency (trust) fund on the Norwood City School District's financial reporting system. That system is maintained, reported and audited on a cash basis. The conversion school's financial report is prepared from the agency fund's accounting transaction. The decision to prepare the NCCS on a cash basis was made in the interest of simplicity, time, and cost.

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NORWOOD CONVERSION COMMUNITY SCHOOL
HAMILTON COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Ohio Rev. Code § 117.38, Ohio Admin. Code § 117-2-03(B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles.	Not corrected. Reissued as 2017-001.	
2016-002	Finding for Recovery Issues against Mr. Robert Amodio for theft in office.	Corrected.	Restitution was paid by Mr. Amodio on January 4, 2018.

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Dave Yost • Auditor of State

NORWOOD CONVERSION COMMUNITY SCHOOL

HAMILTON 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
MARCH 22, 2018

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