URBAN EARLY COLLEGE NETWORK
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

URBAN EARLY COLLEGE NETWORK
MONTGOMERY COUNTY
JUNE 30, 2018

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KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

Urban Early College Network
Montgomery County
3237 West Siebenthaler Avenue
Dayton, Ohio 45406

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Urban Early College Network, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The School's Management Company did not provide the payroll records or an Agreed Upon Procedures Report on the Management Company's expenses for the School. This resulted in us not being able to gain assurance regarding the accuracy of the contribution amounts used to calculate the School's net pension and OPEB liability. The net pension liability included in the School's basic financial statements represents 84 percent, 73 percent, 58 percent and 0.2 percent of the deferred outflows, liabilities, deferred inflows and expenses, respectively, of the School's financial statements. Similarly the net OPEB liability included in the School's basic financial statements represents 16 percent, 16 percent, 42 percent and 0.6 percent of the deferred outflows, liabilities, deferred inflows and expenses, respectively, of the School's financial statements.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Urban Early College Network, Montgomery County, Ohio, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit 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 September 5, 2019, 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.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

September 5, 2019

The discussion and analysis of Urban Early College Network's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, Net Position increased $334,313.
- Total assets increased by $95,027.
- Total liabilities increased by $252,392.
- The School implemented GASB 75, which increased beginning net position as previously reported by $631.

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27. For fiscal year 2018, the School adopted GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OBEP liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan 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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($203,648) to ($203,017).

Using this Financial Report

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.

Statement of Net Position

The Statement of Net Position answers the question of how well the School performed financially during 2018. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital, and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's Net Position for fiscal year 2018 and fiscal year 2017.

(Table 1)
Statement of Net Position

	2018	Restated 2017
Assets		
Current Assets	$ 101,564	$ 6,537
Total Assets	101,564	6,537
Deferred Outflows	564,680	50,832
Liabilities		
Current Liabilities	55,802	260,386
Long Term Liabilities	456,976	0
Total Liabilities	512,778	260,386
Deferred Inflows	22,170	0
Net Position		
Unrestricted	131,296	(203,017)
Total Net Position	$ 131,296	$ (203,017)

Total assets increased $95,027 from 2017. This increase was primarily due to an increase in cash due to revenues exceeding expenses. The significant changes in pension and OPEB deferred outflows and pension deferred inflows are primarily from changes in proportionate share of contributions. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

Long-term liabilities increased $456,976 as fiscal year 2018 was the first year the School had net pension and OPEB liabilities since being established in 2017.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the change in Net Position for fiscal years 2018 and 2017.

(Table 2)
Change in Net Position

	2018	2017
Operating Revenue	$ 1,124,839	$ 688,214
Non-Operating Revenue	53,184	1,311
Total Revenue	1,178,023	689,525
Operating Expenses	843,710	893,173
Change in Net Position	$ 334,313	$ (203,648)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $631 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of $5,058. Consequently, in order to compare 2018 total expenses to 2017, the following adjustments are needed:

Total 2018 Expenses under GASB 75	$ 843,710
OPEB Expense under GASB 75	(5,058)
2018 Contractually Required Contribution	1,199
Adjusted 2018 Expenses	839,851
Total 2017 Expenses under GASB 45	893,173
Decrease in Expenses not Related to OPEB	$ (53,322)

Total revenue increased by $488,498 primarily due to changes in enrollment. Operating expenses decreased $49,463. Both the increase in revenues and decrease in expenses can also be attributed the School establishing itself and growing since beginning operations in fiscal year 2017.

Current Financial Issues

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the School.

The School is sponsored by Educational Resource Consultants of Ohio and is managed by Education Empowerment Group.

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 other 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 readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

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Urban Early College Network
Montgomery County, Ohio
Statement of Net Position
June 30, 2018

ASSETS		
Current Assets		
Cash & Cash Equivalents	$	101,564
Total Assets		101,564
DEFERRED OUTFLOWS OF RESOURCES		
Pension		476,938
OPEB		87,742
Total Deferred Outflows of Resources		564,680
LIABILITIES		
Current Liabilities		
Accounts Payable		44,709
Accrued Wages and Benefits		8,889
Intergovernmental Payable		2,204
Total Current Liabilities		55,802
Long Term Liabilities		
Net Pension Liability		375,271
Net OPEB Liability		81,705
Total Long Term Liabilities		456,976
Total Liabilities		512,778
DEFERRED INFLOWS OF RESOURCES		
Pension		12,905
OPEB		9,265
Total Deferred Inflows of Resources		22,170
NET POSITION		
Unrestricted Net Position		131,296
Total Net Position	$	131,296

See accompanying notes to the basic financial statements.

Urban Early College Network
Montgomery County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

OPERATING REVENUES		
Foundation Revenue	$	1,090,805
Facilities Funding		26,728
Casino Revenue		7,306
Total Operating Revenues		1,124,839
OPERATING EXPENSES		
Salaries and Wages		5,500
Fringe Benefits		30,235
Purchased Services		769,871
Supplies and Materials		8,200
Other Expenses		29,904
Total Operating Expenses		843,710
Operating Income (Loss)		281,129
NON-OPERATING REVENUES		
Federal and State Grants		53,184
Total Non-Operating Revenues		53,184
Change in Net Position		334,313
Net Position Beginning of Year (Restated)		(203,017)
Net Position End of Year	$	131,296

See accompanying notes to the basic financial statements.

Urban Early College Network
Montgomery County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From State Aid	$	1,124,839
Cash Payments To Suppliers For Goods And Services		(1,017,737)
Cash Payments To Employees For Salaries And Benefits		(61,548)
Net Cash Provided by (Used For) Operating Activities		45,554
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received From Grant Programs		49,473
Net Increase in Cash and Cash Equivalents		95,027
Cash and Cash Equivalents at Beginning of Year		6,537
Cash and Cash Equivalents at End of Year	$	101,564
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$	281,129
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET PROVIDED BY OPERATING ACTIVITIES		
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:		
Deferred Outflows of Resources		(513,848)
Deferred Inflows of Resources		22,170
Accounts Payable		(211,861)
Intergovernmental Payable		2,099
Accrued Wages and Benefits		8,889
Net Pension/OPEB Liability		456,976
Total Adjustments		(235,575)
Net Cash Provided by (Used For) Operating Activities	$	45,554

See accompanying notes to the basic financial statements.

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NOTE 1 - DESCRIPTION OF THE SCHOOL

The Urban Early College Network (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702 and is exempted from federal income taxation under section 501(c)(3) of the Internal Revenue Code. The School's objective is to address the needs of students through a core subject focus with an innovative online curriculum with small-group direct instruction, personal counseling and workforce readiness designed to keep students engaged and provide a self-paced learning environment for high school students in grades 9-12. 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 sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

On May 10, 2016, the School was approved under contract with Educational Resource Consultants of Ohio (the "Sponsor") commencing for one year on July 1, 2016 and ending on June 30, 2017 and will automatically renew for one year through June 30, 2018 due to the status of the sponsorship agreement between the Ohio Department of Education and the Sponsor.

On May 17, 2016, the School entered into a management agreement with Edison Learning, Inc. to serve as the management company for the School that was to extend until June 30, 2021. Effective July 5, 2018, Education Empowerment Group became the new management company of the School. See Notes 8 and 13 for additional detail.

The School operates under the direction of a Board of Directors which must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the School. The Board of Directors 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 qualification of teachers. The Board of Directors controls the School's instructional/support facility staffed by employees of the management company who provide services to 165 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.

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.

The School uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the School's finances meet its cash flow needs.

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 non-exchange 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.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 5 and 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 5 and 6).

Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Cash

Cash received by the School is reflected as " cash and cash equivalents" on the statement of net position. Unless otherwise noted, all monies received by the School are pooled and deposited in a central bank account as demand deposits. The School did not have any investments during fiscal year 2018.

Capital Assets

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The School has established a capitalization threshold of $1,500. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The School had no capital assets over the threshold to report at June 30, 2018.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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.

Intergovernmental Revenues

The School currently participates in the State Foundation, Special Education, Economic Disadvantaged, Targeted Assistance, and Facilities Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2018 school year totaled $1,090,805.

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.

Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net position.

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.

Pensions and Other Postemployment Benefits (OPEB)

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

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.

NOTE 3 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2018, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments.*

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the financial statements. See below for the effect on net position as previously reported.

Net Position, June 30, 2017	$	(203,648)
Adjustments:		
Net OPEB Liability		0
Deferred Outflow-Payments Subsequent to Measurement Date		631
Restated Net Position, July 1, 2017	$	(203,017)

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the School's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

NOTE 5 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

Ohio Revised Code limits the 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 *accounts payable*.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 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 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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The School's contractually required contribution to SERS was $7,795 for fiscal year 2018.

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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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, 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $29,310 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00115430%	0.00128942%	
Prior Measurement Date	0.00000000%	0.00000000%	
Change in Proportionate Share	0.00115430%	0.00128942%	
Proportionate Share of the Net Pension Liability	$ 68,967	$ 306,304	$ 375,271
Pension Expense	$ 27,909	$ (29,365)	$ (1,456)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2018 the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS		STRS		Total	
Deferred Outflows of Resources						
Differences between Expected and Actual Experience	$	2,968	$	11,828	$	14,796
Changes of Assumptions		3,567		66,992		70,559
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions		51,936		302,542		354,478
School Contributions Subsequent to the Measurement Date		7,795		29,310		37,105
Total Deferred Outflows of Resources	$	66,266	$	410,672	$	476,938
Deferred Inflows of Resources						
Differences between Expected and Actual Experience	$	0	$	2,469	$	2,469
Net Difference between Projected and Actual Earnings on Pension Plan Investments		328		10,108		10,436
Total Deferred Inflows of Resources	$	328	$	12,577	$	12,905

$37,105 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 fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS		STRS		Total	
Fiscal Year Ending June 30:						
2019	$	21,490	$	89,422	$	110,912
2020		22,924		103,173		126,097
2021		15,336		95,206		110,542
2022		(1,607)		80,984		79,377
	$	58,143	$	368,785	$	426,928

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 terminations). 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, 2017, 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	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from 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 earnings 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.

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 School's proportionate share of 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	$ 95,708	$ 68,967	$ 46,566

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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 as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)		Current Discount Rate (7.45%)		1% Increase (8.45%)	
School's Proportionate Share of the Net Pension Liability	$	439,077	$	306,304	$	194,463

Assumption Changes since the Prior Measurement Date
The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date
Effective July 1, 2017, the COLA was reduced to zero.

NOTE 6 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *accounts payable*.

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. 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 2018, the School's surcharge obligation was $910.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was $1,199 for fiscal year 2018. Of this amount $910 is reported as an accounts payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly 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. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.00116990%	0.00128942%	
Prior Measurement Date	0.00000000%	0.00000000%	
Change in Proportionate Share	0.00116990%	0.00128942%	
Proportionate Share of the Net OPEB Liability	$ 31,397	$ 50,308	$ 81,705
OPEB Expense	$ 10,559	$ (5,501)	$ 5,058

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At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 2,904	$ 2,904
Changes in Proportionate Share and Differences between School Contributions and Proportionate Share of Contributions	24,531	59,108	83,639
School Contributions Subsequent to the Measurement Date	1,199	0	1,199
Total Deferred Outflows of Resources	$ 25,730	$ 62,012	$ 87,742
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	$ 83	$ 2,150	$ 2,233
Changes of Assumptions	2,979	4,053	7,032
Total Deferred Inflows of Resources	$ 3,062	$ 6,203	$ 9,265

$1,199 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 7,787	$ 9,122	$ 16,909
2020	7,787	9,122	16,909
2021	5,915	9,122	15,037
2022	(20)	9,124	9,104
2023	0	9,660	9,660
Thereafter	0	9,659	9,659
	$ 21,469	$ 55,809	$ 77,278

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's Proportionate Share of the Net OPEB Liability	$ 37,916	$ 31,397	$ 26,232

	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	$ 25,476	$ 31,397	$ 39,233

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	100.00 %	

*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's Proportionate Share of the Net OPEB Liability	$ 67,538	$ 50,308	$ 36,691

	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	$ 34,952	$ 50,308	$ 70,519

NOTE 7 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School maintained the following coverage through Edison Learning, Inc.: commercial general liability, automobile liability, and excess/umbrella liability.

Coverage	Limits of Coverage
General liability: Each occurrence	$ 1,000,000
Damage to rented premises - each occurrence	1,000,000
Medical expense - any one person	5,000
Personal & adverse injury	1,000,000
General aggregate	10,000,000
Products - comp/op aggr.	2,000,000
Automobile liability: Combined single limit - each accident	1,000,000
Excess/umbrella liability: Each occurrence	25,000,000
Aggregate	25,000,00
Retention	10,000

Settled claims have not exceeded coverage in the previous two years. There has been no significant reduction in coverage from prior year.

NOTE 8 – CONTRACTS

Sponsor Contract

The School entered into a sponsorship contract commencing on July 1, 2016 and ending on June 30, 2017 with Educational Resource Consultants of Ohio (the “Sponsor”) for its establishment. The agreement will automatically renew for one year through June 30, 2018 due to the status of the sponsorship agreement between the Ohio Department of Education and the Sponsor. During the 2018- 19 school year, the Board of Directors will undergo a comprehensive high-stakes review conducted by the Sponsor. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the laws applicable to the School and with the terms of this contract;

- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis;

- Ensure that sufficient resources are available and allocated for appropriate fiscal control, records creation and records maintenance;

- Report annually the results of its evaluation conducted under section 3314.03(l)(2) of the Ohio Revised Code to the Department of Education and to parents and students enrolled in the School;

- Provide reasonable technical assistance to the School in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the School);

- Intervene as the Sponsor deems necessary in the School 's operation to correct problems with overall performance including, but not limited to, exercising its right to place the School on probation under Ohio Revised Code section 3314.073 or to suspend or terminate the School under Ohio Revised Code sections 3314.07 or 3314.072; and

- Prepare and/or require a contingency plan of action in the event the School experiences financial difficulties or closes before the end of the school year

For performing the above responsibilities, the School will pay the Sponsor 3% of all funds received by the School from the State of Ohio, including state start-up grants, but excluding federal funds. The School paid the Sponsor $32,624 for services during fiscal year 2018.

Operating Contract

On May 17, 2016, the School entered into a management agreement with Edison Learning, Inc. to serve as the management company for the School that will extend until June 30, 2021. Edison Learning, Inc. is required to provide the following services:

- School operation services
- Capital resources and services
    - School technology, curriculum materials, furniture and fixtures
    - Asset leasing
    - Cleaning, maintenance and security
    - Food service
    - School facilities
    - Technology support services

- Personnel (employee salary and wages and payroll tax and benefits)

For the services listed above, the School is required to pay a fee to Edison Learning, Inc. For fiscal year 2018, the School will pay Edison Learning a management fee equal to 15% of the external public funds received by the School. The School also paid Edison Learning for various operating costs of the School. Payments to Edison Learning, Inc. amounted to $761,834 during fiscal year 2018 which included various personnel expenses, non-personnel expenses and management fees.

Computer Services Contract

The School entered into an agreement with Edison Learning, Inc. for software and support services or Edison Learning eCourses software. Amounts paid for these services are included above.

NOTE 9 – PURCHASED SERVICES EXPENSES

For fiscal year 2018, purchased services expenses were as follows:

Professional and Technical Services	$ 500,431
Sponsorship Fees	32,624
Management Company Payments	91,913
Treasurer Services	28,800
Legal Services	12,416
Rent	59,354
Other Contract Services	44,333
Total	$ 769,871

NOTE 10 – OPERATING LEASE

On June 1, 2016, the School entered into a lease agreement with Northwest Plaza Developers, LLC, for approximately 6,600 square feet of space located at 3237 W. Siebenthaler Ave. The terms of the lease began on July 1, 2016 and will last five years with a termination date of June 30, 2021. Under the terms of the lease, the School owes $5,935 per month for rent, real estate taxes and a maintenance charge.

NOTE 11 – CONTINGENCIES

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.

The School was due an additional $3,327 from ODE as a result of the FTE review.

In addition, the School's contracts with their Sponsor, Management Company, and Edison Learning, Inc. require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 resulted in additional amounts due to the Sponsor and the Management Company.

Litigation

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

NOTE 12 - MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2018, Edison Learning, Inc. incurred the following expenses on behalf of the School.

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Support Services (2000 Function Codes)	Total
Direct expenses:				
Salaries & wages (100 object codes)	156,813		165,643	322,456
Employees' benefits (200 object codes)	78,196		67,651	145,848
Professional & technical services (410 object codes)	194,515	11,632	70,475	276,622
Property services (420 object codes)			110,193	110,193
Travel (430 object codes)			639	639
Communications (440 object codes)			23,488	23,488
Utilities (450 object codes)			7,784	7,784
Transportation (480 object codes)			16,830	16,830
Supplies (500 object codes)	2,432		7,629	10,060
Indirect expenses:				
Overhead	11,034		50,238	61,272
Total expenses	**442,990**	**11,632**	**520,570**	**975,192**

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

NOTE 13 - SUBSEQUENT EVENT

On July 5, 2018, the School's Board of Directors canceled the management agreement with Edison Learning, Inc. that was previously scheduled to run through June 30, 2021. Starting July 5, 2018, Education Empowerment Group became the new management company of the School. Under the new management agreement, Education Empowerment Group will serve as the management company of the School until June 30, 2019.

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Urban Early College Network
Montogomery County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Fiscal Year (1)

	2018
School Employees Retirement System (SERS)	
School's Proportion of the Net Pension Liability	0.00115430%
School's Proportionate Share of the Net Pension Liability	$ 68,967
School's Covered Payroll	$ 149,521
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	46.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%
State Teachers Retirement System (STRS)	
School's Proportion of the Net Pension Liability	0.00128942%
School's Proportionate Share of the Net Pension Liability	$ 306,304
School's Covered Payroll	$ 209,057
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	146.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%

(1) Information prior to 2018 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

Urban Early College Network
Montogomery County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - Pension
Last Two Fiscal Years (1)

	2018	2017
School Employees Retirement System (SERS)		
Contractually Required Contribution	$ 7,795	$ 20,933
Contributions in Relation to the Contractually Required Contribution	(7,795)	(20,933)
Contribution Deficiency (Excess)	$ 0	$ 0
School's Covered Payroll	$ 57,741	$ 149,521
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%
State Teachers Retirement System (STRS)		
Contractually Required Contribution	$ 29,310	$ 29,268
Contributions in Relation to the Contractually Required Contribution	(29,310)	(29,268)
Contribution Deficiency (Excess)	$ 0	$ 0
School's Covered Payroll	$ 209,357	$ 209,057
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%

(1) Information prior to fiscal year 2017 is not available.

See accompanying notes to the required supplementary information.

Urban Early College Network
Montgomery County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net OPEB Liability
Last Fiscal Year (1)

		2018
School Employees Retirement System (SERS)		
School's Proportion of the Net OPEB Liability		0.00116990%
School's Proportionate Share of the Net OPEB Liability	$	31,397
School's Covered Payroll	$	149,521
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll		21.00%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		12.46%
State Teachers Retirement System (STRS)		
School's Proportion of the Net OPEB Liability		0.00128942%
School's Proportionate Share of the Net OPEB Liability	$	50,308
School's Covered Payroll	$	209,057
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll		24.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		47.10%

(1) Information prior to 2018 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

Urban Early College Network
Montgomery County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - OPEB
Last Two Fiscal Years (2)

	2018	2017
School Employees Retirement System (SERS)		
Contractually Required Contribution (1)	$ 1,199	$ 631
Contributions in Relation to the Contractually Required Contribution	(1,199)	(631)
Contribution Deficiency (Excess)	$ 0	$ 0
School's Covered Payroll	$ 57,741	$ 149,521
OPEB Contributions as a Percentage of Covered Payroll (1)	2.08%	0.42%
State Teachers Retirement System (STRS)		
Contractually Required Contribution	$ 0	$ 0
Contributions in Relation to the Contractually Required Contribution	0	0
Contribution Deficiency (Excess)	$ 0	$ 0
School's Covered Payroll	$ 209,357	$ 209,057
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%

(1) Includes surcharge
(2) Information prior to fiscal year 2017 is not available.

See accompanying notes to the required supplementary information.

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
    - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- 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 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
    - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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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*

Urban Early College Network
Montgomery County
3237 West Siebenthaler Avenue
Dayton, Ohio 45406

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 Urban Early College Network, Montgomery County, (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 5, 2019 wherein we qualified our opinion on the financial statements because the School's Management Company did not provide adequate documentation to support information provided to the retirement systems, which was used to calculate the School's proportionate share of its net pension and OPEB liability.

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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2018-001 and 2018-002 to be material weaknesses.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2018-002 through 2018-004.

School's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the School's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 report is not suitable for any other purpose.

Keith Faber
Auditor of State
Columbus, Ohio

September 5, 2019

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

FINDING NUMBER 2018-001

MATERIAL WEAKNESS

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The School lacked appropriate controls over calculation and review of net pension liability, this resulted in the following material misstatements that required adjustments to the accompanying financial statements:

1. Deferred outflows - Pension related to the School Employees Retirement System was overstated by $11,386 and pension expense was understated by the same amount
2. Deferred outflows - Pension related to the State Teachers Retirement System was overstated by $7,538 and pension expense was understated by the same amount

The School should implement procedures to verify that financial statements are prepared in accordance with applicable GASB standards and are materially correct. Someone independent of the financial statement preparation process should review them for completeness and accuracy. Failure to do so could result in the users of the financial statements relying on materially misstated financial statements to base their conclusions about School's finances.

Official’s Response: The School hired expert consultants to prepare this complex calculation including using the information provided by the pension plans to provide a reasonable estimate for the aforementioned line items. The error has been pointed out and they are aware for future calculations.

FINDING NUMBER 2018-002

NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code § 3314.03(A)(8) includes the requirements of community schools to have financial audits performed by the Auditor of State (AOS). The Contract between sponsors and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and the audits shall be conducted in accordance with Ohio Rev. Code § 117.10. This includes preparing the footnote of the management company in accordance with Ohio Rev. Code § 3314.024 and the Auditor of State Requirements.

Ohio Rev. Code § 3314.024(A) states a management company that receives more than twenty per cent of the annual gross revenues of a community school shall provide a detailed accounting including the nature and costs of goods and services it provides to the community school. This information shall be reported using the categories and designations set forth in divisions (B) and (C) of this section, as applicable.

FINDING NUMBER 2018-002
(Continued)

Ohio Rev. Code § 3314.024(D) states the information provided pursuant to this section shall be subject to verification through examination of community school records during the course of the regular financial audit of the community school.

In order to meet these requirements, management companies may elect to have AOS (or contracting independent public auditors) audit this information at the management company or may provide independently audited financial statements and statement showing the direct and allocated indirect (e.g. overhead) expenses for each school it manages. The companies should present this statement in a combining or consolidated format (i.e. present a column for each school). If a management company does not have audited financial statements or the audited financial statements do not present combining or consolidated columns for each of its schools, or if the management company's auditor does not provide opinion-level assurance on the combining or consolidating columns presenting each school, the Auditor of State will accept an agreed-upon procedures (AUP) report per AICPA Clarified Attestation Standards Section 215.

Additionally, Article IV Section 4.2 of the Community School Contract with Educational Resource Consultants of Ohio states that if the management company provides services to the School in excess of twenty percent (20%) of the School's gross annual revenues, then the management company must provide a detailed accounting of the nature and costs of the services it provides to the School, in a form acceptable to the Auditor of State of Ohio.

Edison Learning, the management company for the School, received more than 20% of the School's revenue during fiscal year 2018. However, the management company failed to provide a detailed accounting related to the nature and costs of the goods and services provided to the School.

Failure to provide a detailed accounting related to the nature and costs of goods and services provided to the School, and have an audit or agreed-upon procedures (AUP) engagement performed over the information could lead to issues in determining if the School's funds are being spent properly and in accordance with the management company agreement.

Additionally, completeness and accuracy of the School’s proportionate share of the net pension and OPEB liability is determined by testing underlying payroll records at the School and verifying that the School is correctly reporting its payroll along with census information to the retirement systems. The School’s Management Company did not provide the auditors with underlying payroll records to substantiate that the School was reporting correct information to the retirement systems. Normally Management Company's agreed upon procedures report would have addressed these requirements. This resulted in a scope limitation since we were unable to gain sufficient, competent audit evidence supporting the School’s net pension and OPEB liability and the related deferred outflows and inflows of resources.

The School should implement policies and procedures to determine that the required management company expenditure information is included in the School's notes to the financial statements. There should also be an audit or AUP performed over the management company's reported information. Also, the School should review the sponsorship agreement to determine compliance with various aspects of the agreement. Failure to do so could result in modification of the School’s opinion, additional audit cost and actions taken by the retirement systems against the School.

Official’s Response: School officials made numerous requests of previous management company, Edison Learning Inc., to provide the required detailed accounting disclosure report. The requests were ignored and this served as one of the factors for termination of the Edison Learning Management agreement on July 5, 2018.

FINDING NUMBER 2018-003

NONCOMPLIANCE

Ohio Rev. Code § 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully.

Ohio Rev. Code § 3314.08(H)(2) states that a student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section 3301.0714 of the Revised Code. For purposes of applying this division and divisions (H)(3) and (4) of this section to a community school student, "learning opportunities" shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school. A student's enrollment shall be considered to cease on the date on which any of the following occur:

(a) The community school receives documentation from a parent terminating enrollment of the student.
(b) The community school is provided documentation of a student's enrollment in another public or private school.
(c) The community school ceases to offer learning opportunities to the student pursuant to the terms of the contract with the sponsor or the operation of any provision of this chapter.

Ohio Rev. Code § 3314.03 (A)(6)(b) state that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student without a legitimate excuse fails to participate in seventy-two consecutive hours of the learning opportunities offered to the student.

Furthermore, **Ohio Rev. Code § 3314.03 (A)(28)** states that the school's attendance and participation records shall be made available to the department of education, auditor of state, and school's sponsor to the extent permitted under and in accordance with the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232g, as amended, and any regulations promulgated under that act, and section 3319.321 of the Revised Code.

Ohio Rev. Code § 3314.17 (A), in part, states that each community school established under this chapter shall participate in the statewide education management information system established under section 3301.0714 of the Revised Code.

The following errors were noted during our test of student records:

FINDING NUMBER 2018-003
(Continued)

1. Number of excused absences reported in the education management information system (EMIS) did not agree to documentation maintained by the School for one out of ten (10%) students tested. The School reported 7 excused absences for the student while it maintained supporting documentation for 13 absences.
2. The School was unable to provide withdrawal documentation for seven out of 20 (35%) of students tested.
3. Enrollment date on School's request for release of or access to a student's records form did not agree to the EMIS system for seven out of 20 (35%) of students tested.
4. For two out of 20 (10%) of enrollments tested the date of admission on student information sheet did not agree to the date on in the EMIS system.

Failure to properly report accurate student enrollment and attendance data could result in sanctions from the Ohio Department of Education and potential future losses of funding for the School.

The School should evaluate its processes and procedures for enrolling, reporting and withdrawing students and should utilize the EMIS manual for guidance. All enrolled and withdrawn students should be reported to the Ohio Department of Education using proper coding and in a timely fashion and all enrollment documents should be maintained in accordance with the applicable state and federal law along with the School's data retention schedule. Failure to do so could result in the School being funded wrong amounts by Ohio Department of Education as school funding is based on enrollment.

The issue is being referred to Ohio Department of Education.

Official's Response: The previous management company maintained student reporting and enrollment information. The school was dissatisfied with their performance and terminated the agreement on July 5, 2018. The school understands the importance of accurate student reporting and enrollment information and has engaged a management company that is aware of those responsibilities.

FINDING NUMBER 2018-004

<u>NONCOMPLIANCE</u>

The 131st General Assembly of the Ohio Legislature passed House Bill 410 which became effective on April 6, 2017. The Bill amended various sections of Ohio Rev. Code §§ 2151, 2152, 2919, 3313, 3314, 3321, 3326, 3328, 4510 and 5919. The Bill also enacted Ohio Rev. Code § 3313.668. Regular school attendance is an important ingredient in students' academic success. Excessive absences interfere with students' progress in mastering knowledge and skills necessary to graduate from high school prepared for higher education and the workforce. To support academic success for all students, the School is required to partner with students and their families to identify and reduce barriers to regular school attendance. The School is required to utilize a continuum of strategies to reduce student absence including, but not limited to:

1. Notification of student absence to the parent or guardian;
2. Development and implementation of an absence intervention plan, which may include supportive services for students and families;
3. Counseling;
4. Parent education and parenting programs;
5. Mediation;
6. Intervention programs available through juvenile authorities; and
7. Referral for truancy, if applicable.

FINDING NUMBER 2018-004
(Continued)

Updated School policies and procedures should reflect the following changes:

1. Definition of truancy and excessive absences
2. Truancy is decriminalized with several changes
3. Student discipline changes
4. School responsibilities when a child has excessive absences
5. School responsibilities when a child is habitually truant

During fiscal year 2018, the School faced a significant absenteeism problem. On May 9, 2019 Auditor of State performed a surprise head count at the School and noted 11 students in attendance out of 81 students listed on the School's attendance sheet. There was no indication that the School implemented policies and procedures in accordance with requirements of House Bill 410 during fiscal year 2018.

In addition, twelve out of twenty three students tested (52.17%) for attendance met the definition of habitually truant and there was no indication that the School took steps in accordance with House Bill 410 to address the situation including but not limited to informing the parent of guardian of the student and forming an absence intervention team.

The School should establish and implement policies and procedures in accordance with House Bill 410 requirements to handle chronic absenteeism and truancy. This will provide students with a support network and help them meet academic success and reduce dropout before graduation.

This matter is being referred to Ohio Department of Education.

Official's Response: On November 2, 2018 the Board of Directors adopted the attached HB 410 compliant policy. Under new management the school has been implementing all of the required interventions.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Management Company Agreed-upon Procedures	Not Corrected	Community School terminated contract with the Management Company on June 30, 2018

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OHIO AUDITOR OF STATE
KEITH FABER

URBAN EARLY COLLEGE NETWORK DBA DAYTON BRIDGESCAPE ACADEMY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 10, 2019