



Dave Yost • Auditor of State

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Stonebrook Montessori
Cuyahoga County
975 East Boulevard
Cleveland, Ohio 44108

To the Board of Directors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stonebrook Montessori, Cuyahoga County, Ohio, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

March 31, 2017

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

The discussion and analysis of the Stonebrook Montessori (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (the MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first year of financial reporting for the School comparative prior year fiscal information does not exist. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the School for the 2015-16 school year are as follows:

- Total Assets and Deferred Outflows of Resources were \$196,385.
- Total Liabilities were \$31,687.
- Total Net Position was \$164,698.
- Total Operating and Non-Operating revenues were \$1,226,503. Total Operating expenses were \$1,061,805.

USING THIS ANNUAL REPORT

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2016. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in that position. This change in net position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2016. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position for fiscal year 2016. This is the School's first year of operation. Therefore, comparative information is not available.

**Table 1
Statement of Net Position**

	<u>2016</u>
Assets	
Current Assets	\$ 92,301
Total Assets	<u>92,301</u>
Deferred Outflows of Resources	104,084
Liabilities	
Current Liabilities	31,687
Total Liabilities	<u>31,687</u>
Net Position	
Unrestricted	<u>164,698</u>
Total Net Position	<u>\$ 164,698</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the School's net position totaled \$164,698.

Current assets represent cash and cash equivalents and accounts receivable. Current liabilities represent accounts payable and accrued expenses. As no prior year information is available, given that this was the initial year of operation for the school, all amounts reflected above changed 100%.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

Statement of Revenues, Expenses and Change in Net Position

Table 2 shows the changes in net position for fiscal year 2016, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

This is the School's first year of operation. Therefore, comparative information is not available.

**Table 2
Change in Net Position**

	2016
Operating Revenue	
State Aid	\$ 468,650
Charges for Services	8,400
Intergovernmental Revenue	1,500
Other	51,612
Total Operating Revenues	530,162
 Operating Expenses	
Salaries	734,348
Fringe Benefits	64,323
Purchased Services	232,929
Materials and Supplies	23,084
Other	7,121
Total Operating Expenses	1,061,805
Operating (Loss)	(531,643)
 Non-Operating Revenues	
State Grants	74,031
Intergovernmental Revenue	46,514
Contributions and Donations	575,796
Total Non-Operating Revenues	696,341
Increase in Net Position	\$ 164,698

As previously noted, no prior year information is available as fiscal year 2016 was the initial year of operations for the School. Therefore, all amounts reflected above changed 100%.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

BUDGETING HIGHLIGHTS

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, semi-annually.

CURRENT FINANCIAL ISSUES

The School is a community School and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In 2016, the State raised the base per pupil funding to \$5,900, which is up from \$5,800 in the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be \$150 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2016 was 56.47.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 975 East Boulevard, Cleveland Ohio 44108 or e-mail at dave@massasolutionsllc.com.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

**Statement of Net Position
At June 30, 2016**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 54,415
Receivables	37,886

Total Current Assets	<u>92,301</u>
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Total Assets	<u>92,301</u>
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Deferred Outflows of Resources - Pension	<u>104,084</u>
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Liabilities

Current Liabilities:

Accounts Payable	21,574
Accrued Expenses	10,113

Total Current Liabilities	<u>31,687</u>
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Total Liabilities	<u>31,687</u>
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Net Position

Unrestricted	<u>164,698</u>
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Total Net Position	<u><u>\$ 164,698</u></u>
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See accompanying notes to the basic financial statements

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

**Statement of Revenues,
Expenses and Change in Net Position
For the Year Ending June 30, 2016**

Operating Revenues

State Aid	\$ 468,650
Charges for Services	8,400
Intergovernmental Revenue	1,500
Other	51,612
Total Operating Revenues	<u>530,162</u>

Operating Expenses

Salaries	734,348
Fringe Benefits	64,323
Purchased Services	232,929
Materials and Supplies	23,084
Other	7,121
Total Operating Expenses	<u>1,061,805</u>

Operating (Loss) (531,643)

Non-Operating Revenues

State Grants	74,031
Intergovernmental Revenue	46,514
Contributions and Donations	575,796
Total Non-Operating Revenues	<u>696,341</u>

Change in Net Position 164,698

Net Position, Beginning of Year -

Net Position, End of Year \$ 164,698

See accompanying notes to the basic financial statements

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016**

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 468,650
Cash Received from Other Operating Sources	60,440
Cash Payments to Suppliers for Goods and Services	(240,710)
Cash Payments to Employees for Services	(734,348)
Cash Payments for Employee Benefits	(159,143)
	<hr/>
Net Cash (Used for) Operating Activities	(605,111)

Cash Flows from Non-capital Financing Activities

Cash Received from State Grants	57,467
Cash Received from Intergovernmental	26,263
Cash Received from Contributions and Donations	575,796
	<hr/>
Net Cash Provided by Non-capital Financing Activities	659,526

Net Increase in Cash and Cash Equivalents 54,415

Cash and Cash Equivalents, Beginning of Year

-

Cash and Cash Equivalents, End of Year

\$ 54,415

(Continued)

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET
CASH (USED FOR) OPERATING ACTIVITIES**

Operating Loss	\$ (531,643)
Changes in Assets, Liabilities, and Deferred Outflows	
(Increase) in Accounts Receivable	(1,072)
(Increase) in Deferred Outflows of Resources	(104,084)
Increase in Accrued Expenses	9,264
Increase in Accounts Payable	22,424
	<hr/>
Net Cash (Used for) Operating Activities	<u>(605,111)</u>

See accompanying notes to the basic financial statements

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

1. DESCRIPTION OF THE ENTITY

Stonebrook Montessori, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to improve the lives of its students by providing authentic learning experiences in a collaborative, nurturing environment that will build a foundation for student's success in school, at future work and in life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Cleveland Metropolitan School District, ("CMSD") (the Sponsor) for a five year period commencing on July 1, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes in net position, financial position and cash flows.

The Government Accounting Standards Board identifies the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets, and deferred outflows of resources, and all liabilities are included on the Statement of Net Position. The statement of Revenue, Expenses and changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception of section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

D. Cash and Cash Equivalents

Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2016.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost. Donated capital assets are recorded at their fair market values as of the date received. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net position. Capital assets were \$0, as of June 30, 2016, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Computers & Technology Assets	3 years
Furniture, Fixtures, & Equipment	5 years
Textbooks	3 years

The School's policy for asset capitalization threshold is \$1,500. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompanying statement of net position.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in various State programs passed through the Ohio Department of Education.

Also, during the fiscal year, the School began to receive a pro-rata share of property tax distributions from the Cleveland Municipal School District (CMSD) as part of a partnership agreement executed between the School and CMSD.

Under the above programs the School recorded \$468,650 this fiscal year from the State Foundation Program, \$74,031 from State Grants, and \$46,514 of CMSD property tax distributions.

H. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of thirteen days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

I. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of Accounts Payable of \$21,574, Accrued Expenses of \$2,873, Credit Card Payable of \$849, and Withholding Payable of \$6,391 at June 30, 2016.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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 expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

K. Net Position

Net position represent 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 their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2016.

M. Deferred Inflows and Deferred Outflows of Resources

A deferred inflow of resources is an acquisition of net position by the School that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the School that is applicable to a future reporting period. Other revenues received in advance of the fiscal year for which they were intended to finance, are recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met due at June 30, 2016 are recorded as deferred inflows. Receivables that will not be collected within the available period have been reported as deferred inflows of resources. The School has no deferred inflows and has deferred outflows of resources of \$104,084 at June 30, 2016. (See Note 6)

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Pensions

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

O. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2016, the School has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the Scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement no. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and address the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for and external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit, and Investment Risk Disclosures”.

The School maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. The School also maintains a petty cash account onsite for minor expenses. At June 30, 2016, the book amount of the School’s deposits was \$54,415 and the bank balance was \$63,367.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2016, none of the bank balance was exposed to custodial credit risk.

4. RECEIVABLES

The School has receivables totaling \$37,886 at June 30, 2016. These receivables represented monies due to the School but not received as of June 30, 2016. The sources of the receivables are from CMSD of \$20,251, State Grants of \$16,564, and School fees of \$1,071.

5. RISK MANAGEMENT

Property & Liability

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 the fiscal year ending June 30, 2016, the School contracted with Cincinnati Insurance Company for nonprofits and maintained general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate.

6. DEFINED BENEFIT PENSIONS PLANS

A. Net Pension Liability

In future periods, the School will report a net pension liability on the statement of net position. The net pension liability 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.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

A. Net Pension Liability (Continued)

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

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

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

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

B. School Employees Retirement System (SERS Ohio)

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

Age and service requirements for retirement are as follows:

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

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

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

B. School Employees Retirement System (SERS Ohio) (Continued)

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School's contractually required contribution to SERS was \$60,910 for fiscal year 2016.

C. State Teachers Retirement System (STRS Ohio)

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

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

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

6. DEFINED BENEFIT PENSIONS PLANS (Continued)

C. State Teachers Retirement System (STRS Ohio) (Continued)

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

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

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

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

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

The School's contractually required contribution to STRS was \$43,174 for fiscal year 2016.

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

At June 30, 2016, the School reported deferred outflows of resources, totaling \$104,084 related to pension contributions made during fiscal year 2016. The amount will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

7. POST EMPLOYMENT BENEFITS

A. School Employee Retirement System (SERS Ohio)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School's contributions for health care (including surcharge) for the fiscal year ended June 30, 2016 was \$0. The full amount has been contributed for fiscal year 2016.

B. State Teachers Retirement System (STRS Ohio)

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

**STONEBROOK MONTESSORI
CUYAHOGA COUNTY**

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

7. POST EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (STRS Ohio) (Continued)

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

8. CONTINGENCIES

A. Grants

The School received financial assistance from state agencies in the form of grants. Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

B. Litigation

There are currently no matters in litigation with the School as defendant.

C. Full-Time Equivalency

The School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, the community school must comply with the minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School; therefore, the financial statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School.

9. SPONSOR CONTRACT

The School contracted with Cleveland Metropolitan School District as its sponsor and oversight services as required by law. Sponsorship fees are calculated as one and a half percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2016, the total sponsorship fees paid totaled \$6,903.

**Stonebrook Montessori
Cuyahoga County, Ohio**

*Required Supplementary Information
Schedule of School Contributions
Last Fiscal Year (1)*

	<u>2016</u>
<i>State Teachers Retirement System (STRS)</i>	
Contractually Required Contribution	\$ 43,174
Contributions in Relation to the Contractually Required Contribution	<u>(43,174)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>
School's Covered-Employee Payroll	\$ 308,386
Contributions as a Percentage of Covered-Employee Payroll	14.00%

Information prior to 2016 is not available - 1

**Stonebrook Montessori
Cuyahoga County, Ohio**

*Required Supplementary Information
Schedule of School Contributions
Last Fiscal Year (1)*

	<u>2016</u>
<i>School Employees Retirement System (SERS)</i>	
Contractually Required Contribution	\$ 60,910
Contributions in Relation to the Contractually Required Contribution	<u>(60,910)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>
School's Covered-Employee Payroll	\$ 435,071
Contributions as a Percentage of Covered-Employee Payroll	14.00%

Information prior to 2016 is not available - 1

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Dave Yost • Auditor of State

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

Stonebrook Montessori
Cuyahoga County
975 East Boulevard
Cleveland, Ohio 44108

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 Stonebrook Montessori, Cuyahoga County, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 31, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

March 31, 2017



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Stonebrook Montessori
Cuyahoga County
975 East Boulevard
Cleveland, Ohio 44108

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Stonebrook Montessori (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy on August 24, 2015. We read the policy, noting it includes all the requirements listed in Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Dave Yost
Auditor of State
Columbus, Ohio

March 31, 2017