



Rea & associates *a brighter way*

Marshall High School Butler County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2017



Dave Yost • Auditor of State

Board of Directors
Marshall High School
4720 Roosevelt Boulevard
Middletown, Ohio 45044

We have reviewed the *Independent Auditor's Report* of the Marshall High School, Butler County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Marshall High School is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 15, 2018

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**MARSHALL HIGH SCHOOL
BUTLER COUNTY**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

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December 28, 2017

To the Board of Directors
Marshall High School
Butler County, Ohio
4720 Roosevelt Blvd
Middletown, OH 45044

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall High School, Butler County, Ohio (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2017, and the changes in its financial position and its cash flows 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 that the Management's Discussion and Analysis and the Schedule of the School's Proportionate Share of the Net Pension Liability, and Schedule of School Contributions on pages 3-7, 31, and 32, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

Hea & Associates, Inc.

Cambridge, Ohio

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

The discussion and analysis of the Marshall High School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the 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* 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

- Net Position decreased \$8,629, which represents a 5 percent decrease from 2016. The decrease is due to an increase in operating expenses.
- Total assets increased \$202,673, which represents a 13 percent increase from 2016. This was primarily due to an increase in cash and equivalents from the previous year.
- Liabilities increased \$679,286, which represents a 39 percent increase from 2016. The increase in liabilities is a direct result of the increase in Long Term Liabilities, specifically Net Pension Liabilities.

USING THIS FINANCIAL REPORT

This report consists of three parts, the required supplementary information, 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 Changes 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 2017. 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 Statement of Cash Flows provides information about how the School finances and meets the cash flow needs if its operations.

The School uses enterprise presentation for all of its activities.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

Statement of Net Position - The Statement of Net Position answers the question of how the School did financially during 2017. 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 resources 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 years 2017 and 2016.

(Table 1)
Statement of Net Position

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$1,643,726	\$1,459,833
Non-Current Assets	109,116	90,336
Total Assets	<u>1,752,842</u>	<u>1,550,169</u>
Deferred Outflows of Resources		
Pension Requirements	<u>830,736</u>	<u>420,782</u>
Liabilities		
Current Liabilities	235,926	228,483
Long Term Liabilities	<u>2,164,820</u>	<u>1,492,977</u>
Total Liabilities	<u>2,400,746</u>	<u>1,721,460</u>
Deferred Inflows of Resources		
Pension Requirements	<u>-</u>	<u>58,030</u>
Net Position		
Investment in Capital Assets	41,434	22,654
Unrestricted	<u>141,398</u>	<u>168,807</u>
Total Net Position	<u>\$ 182,832</u>	<u>\$ 191,461</u>

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

Total assets increased \$202,673, which represents a 13 percent increase from 2016. This was primarily due to an increase in cash and cash equivalents from the previous year due to operations. Liabilities increased \$679,286, which represents a 39 percent increase from 2016. The increase in liabilities is a direct result of the decrease in Long Term Liabilities, specifically Net Pension Liabilities.

Statement of Revenues, Expenses and Changes in Net Position - Table 2 shows the changes in net position ended June 30, 2017, as compared to changes reported for fiscal year 2016.

(Table 2)
Change in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenues		
State Aid	\$ 2,465,961	\$ 2,506,762
Casino Aid	12,157	19,764
Non-Operating Revenue		
Grants	197,872	214,776
Interest Income	6,808	1,860
Total Revenues	<u>2,682,798</u>	<u>2,743,162</u>
Operating Expenses		
Purchased Services: Salaries and Benefits	1,430,446	1,065,878
Purchased Services: Management Fees	449,161	459,761
Sponsorship Fees	47,979	54,908
Legal	19,242	25,407
Auditing & Accounting	34,992	34,455
Other Professional Services	185,275	158,204
Other Purchased Services	339,576	307,789
Materials and Supplies	108,361	136,536
Miscellaneous	55,682	60,903
Depreciation	20,713	7,686
Total Expenses	<u>2,691,427</u>	<u>2,311,527</u>
Change in Net Position	<u>\$ (8,629)</u>	<u>\$ 431,635</u>

“Purchased Services – Salaries and Benefits” increased from the previous year due to an increase in employee compensation and bonuses and pension expense related to GASB 68.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

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

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

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

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

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and outflows of resources. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report a pension expense of \$334,100.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

BUDGET

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, 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 has developed a one-year spending plan and a five-year forecast that is reviewed periodically by the Board of Directors. The five-year forecasts are also submitted to the Sponsor and the Ohio Department of Education.

CAPITAL ASSETS

During 2017, the School acquired additional assets with a cost of \$39,493 and recorded current year depreciation of \$20,713. At the end of fiscal year 2017 the School had \$41,434 in capital assets (See Note 5 for further information).

CURRENT FINANCIAL ISSUES

The Marshall High School received revenue for 242 students in 2017, a slight decrease from 246 in 2016, and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$10,190 in fiscal year 2017. The School receives additional revenues from grant subsidies.

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 David Massa, Fiscal Officer for the Marshall High School, 4720 Roosevelt Boulevard, Middletown, Ohio 45044 or e-mail at dave@massasolutionsllc.com.

MARSHALL HIGH SCHOOL - BUTLER COUNTY

STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 1,586,269
Grants Receivable	5,204
Other Receivable	<u>52,253</u>
Total Current Assets	<u>1,643,726</u>

Non-Current Assets

Mgmt Fee Deposits	36,682
Leasehold Deposits	31,000
Depreciable Capital Assets, net	<u>41,434</u>
Total Non-Current Assets	<u>109,116</u>

Total Assets	<u>1,752,842</u>
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DEFERRED OUTFLOWS

Pension Requirements	<u>830,736</u>
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LIABILITIES

Current Liabilities

Accounts Payable	119,822
Accrued Expenses	84,117
State Funding Payable	<u>31,987</u>
Total Current Liabilities	<u>235,926</u>

Long Term Liabilities

Net Pension Liability	<u>2,164,820</u>
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Total Liabilities	<u>2,400,746</u>
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Net Position

Investment in Capital Assets	41,434
Unrestricted	<u>141,398</u>

Total Net Position	<u>\$ 182,832</u>
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See accompanying notes to the basic financial statements.

MARSHALL HIGH SCHOOL - BUTLER COUNTY

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

OPERATING REVENUES	
State Aid	\$ 2,465,961
Other Revenue	<u>12,157</u>
Total Operating Revenues	<u>2,478,118</u>
OPERATING EXPENSES	
Purchased Services: Salaries and Benefits	1,430,446
Purchased Services: Management Fees	449,161
Sponsorship Fees	47,979
Legal	19,242
Auditing and Accounting	34,992
Other Professional Services	185,275
Other Purchased Services	339,576
Materials and Supplies	108,361
Other Operating Expenses	55,682
Depreciation	<u>20,713</u>
Total Operating Expenses	<u>2,691,427</u>
Operating Loss	<u>(213,309)</u>
NON-OPERATING REVENUE	
Grants	197,872
Interest Income	<u>6,808</u>
Total Non-Operating Revenue	<u>204,680</u>
Change in Net Position	(8,629)
Net Position Beginning of Year	<u>191,461</u>
Net Position End of Year	<u>\$ 182,832</u>

See accompanying notes to the basic financial statements.

**MARSHALL HIGH SCHOOL - BUTLER COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 2,501,789
Cash Payments to Suppliers for Goods and Services	<u>(2,459,412)</u>
Net Cash Provided by Operating Activities	<u>42,377</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Payments for Capital Acquisitions	<u>(39,493)</u>
Net Cash Used for Capital and Financing Activities	<u>(39,493)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	<u>192,668</u>
Net Cash Provided by Noncapital Financing Activities	<u>192,668</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	<u>6,808</u>
Net Cash Provided by Investing Activities	<u>6,808</u>

Net Increase in Cash and Cash Equivalents 202,360

Cash and Cash Equivalents Beginning of Year 1,383,909

Cash and Cash Equivalents End of Year \$ 1,586,269

MARSHALL HIGH SCHOOL - BUTLER COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

RECONCILIATION OF OPERATING LOSS TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (213,309)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Depreciation	20,713
Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:	
State Funding Receivable	62,102
Other Receivable	(38,431)
Accounts Payable	(18,994)
Accrued Expense	(5,550)
State Funding Payable	31,987
Net Pension Liability	671,843
Deferred Outflows	(409,954)
Deferred Inflows	(58,030)

Net Cash Provided by Operating Activities	\$ 42,377
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See accompanying notes to the basic financial statements.

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MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Marshall High School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school through the use of innovative educational methods. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Cambridge Education Group, LLC, a Florida limited liability company, ("Cambridge") for most of its functions and Cambridge is the entity with which the School's board interacts regarding day-to-day operations (see Note 7).

The School signed a contract with a sponsor, St. Aloysius Orphanage (the Sponsor), to operate for a period from July 1, 2005 through June 30, 2010. In June 2010, the School extended its contract with St. Aloysius through June 30, 2013. The School renewed its agreement with St. Aloysius in June 2013 for an additional two years ending June 2015. The School renewed its agreement with St. Aloysius July 1, 2015, for a term of one year with one year automatic renewals through June 30, 2018.

The School operates under a self-appointing, six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School began operations in September 2001 and has one instructional/support facility, which is leased by the Board. The Board also operates and serves on the Cliff Park High School and Clark Preparatory Academy in the City of Springfield.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles 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.

Basis of Presentation - The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in Net Position, financial position and cash flows.

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

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting - The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets, all deferred outflows of resources, all liabilities, and all deferred inflows of resources are included on the Statement of Net Position. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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

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 Rev. Code Section 5705, unless specifically provided in the school’s contract with its sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2017. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

Cash and Cash Equivalents - All cash received by the School is maintained in a demand deposit account, and a money market account. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents. The School did not have any investments during the period ended June 30, 2017.

Intergovernmental Revenues - The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under “State Aid” on the Statement of Revenues, Expenses and Changes in Net Position. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all 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. Amounts awarded under the above programs for the 2017 school year totaled \$2,633,833.

Capital Assets and Depreciation - For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000. During fiscal year 2017, the school acquired assets with a cost basis of \$39,493 and recorded current year depreciation of \$20,713. Depreciation is computed by the straight-line method three years for “Computers and Equipment”, 5 years for “Furniture and Equipment” and “Leasehold Improvements” over the remaining lease term.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates - In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position - Net Position represents the difference between (all assets plus deferred outflows of resources) less (all liabilities, plus deferred inflows of resources). Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by an outstanding capital related debt. Net Position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

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.

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

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 as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position (See Note 8). There are no deferred inflows of resources for 2017.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions - At June 30, 2017, the carrying amount of all School deposits was \$1,586,269 and its bank balance was \$1,604,439. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$500,000 of the bank balance was covered by the Federal Deposit Insurance Corporation (FDIC), while \$1,104,439 was uninsured.

The investment and deposit of the School's monies is governed by the provisions of the ORC. In accordance with these statutes, the School is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit and STAR Ohio.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School has no deposit policy for custodial credit risk beyond the requirements of state statute. According to state law, public depositories must give security for all public funds on deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. State law does not require security for public deposits and investments to be maintained in the School's name. During 2017, the School and public depositories complied with the provisions of these statutes.

NOTE 4 – GRANTS AND OTHER RECEIVABLES

The School has recorded Other Receivables and Grants Receivable in the amount of \$52,253, and \$5,204 respectively, to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2017.

NOTE 5 - CAPITAL ASSETS

For the year ended June 30, 2017, the School's capital assets consisted of the following:

	<u>Balance</u>			<u>Balance</u>
	<u>6/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2017</u>
Capital Assets Being Depreciated				
Computers & Equipment	\$ 23,079	\$ 5,204	\$ -	\$ 28,283
Furniture & Equipment	7,261	-	-	7,261
Leasehold Improvements	-	34,289	-	34,289
Total Capital Assets Being Depreciated	30,340	39,493	-	69,833
Less: Accumulated Depreciation				
Computers & Equipment	(7,444)	(7,693)	-	(15,137)
Furniture & Equipment	(242)	(1,452)	-	(1,694)
Leasehold Improvements	-	(11,568)	-	(11,568)
Total Accumulated Depreciated	(7,686)	(20,713)	-	(28,399)
Total Capital Assets Being Depreciated, Net	\$ 22,654	\$ 18,780	\$ -	\$ 41,434

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 6 - RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with Cambridge, the School has contracted with The Cincinnati Insurance Company for property and general liability insurance pursuant to the Management Agreement (See Note 7). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Director and Officer - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$2,500 deductible.

NOTE 7 - AGREEMENT WITH CAMBRIDGE EDUCATION GROUP

Effective July 1, 2015, the School entered into a multi-year Management Agreement (the Agreement) with Cambridge Education Group, LLC, which is an educational consulting and management company. The Agreement's term will run through five academic school years ending June 30, 2020 unless terminated by either party. Thereafter, the agreement will automatically renew for additional successive three (3) year terms. Substantially most functions of the School have been contracted to Cambridge. Cambridge is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. For Fiscal Year 2017, the management fee was 18% percent of the first one million dollars and 17% on any in excess of one million dollars, of the Schools total qualified gross revenues.

The Board shall be responsible for paying fees to its Authorizer pursuant to the Charter plus its own directors and officers insurance, Facility payments, the Board's other contractual obligations, if any, and its own legal, accounting, auditing and professional fees. Cambridge acknowledges that pursuant to Ohio law, Cambridge's State Teachers Retirement System ("STRS") and State Employees Retirement System ("SERS") contributions on behalf of the Cambridge employees employed at the School will be withheld by the State of Ohio.

The School had purchased service expenses (including management fees of \$449,161) for the year ended June 30, 2017, to Cambridge of \$1,879,607, with payables to Cambridge at June 30, 2017, aggregating \$102,751. Cambridge is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, maintenance, capital, and insurance.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

The School has contracted with Cambridge Education Partners LLC to provide all teaching and administrative personnel. Such personnel are employees of Midwest Education Partners LLC; however, the School is responsible for monitoring and ensuring that Midwest Education Partners LLC makes pension contributions on its behalf. The retirement systems consider Midwest Education Partners as the "Employer of Record", however the School is ultimately responsible for remitting contributions to each of the systems noted below.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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 *accrued expense* on the accrual basis of accounting.

School Employees Retirement System (SERS)

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.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Plan Description (continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the 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 2017.

The School's contractually required contribution to SERS was \$22,272 for fiscal year 2017.

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.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) - continued

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or 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 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.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (STRS) - continued

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

The School’s contractually required contribution to STRS was \$107,969 for fiscal year 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an 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:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 1,783,218	\$ 381,602	\$ 2,164,820
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00532733%	0.00521380%	
Prior Measurement Date	<u>0.00437634%</u>	<u>0.00496810%</u>	
Change in Proportionate Share	<u>0.00095099%</u>	<u>0.00024570%</u>	
Pension Expense	\$ 262,639	\$ 71,461	\$ 334,100

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.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 72,050	\$ 5,148	\$ 77,198
Net Difference between Projected and Actual Earnings on Pension Plan Investments	148,056	31,477	179,533
Changes of Assumptions	0	25,474	25,474
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	365,736	52,554	418,290
School Contributions Subsequent to the Measurement Date	107,969	22,272	130,241
Total Deferred Outflows of Resources	<u>\$ 693,811</u>	<u>\$ 136,925</u>	<u>\$ 830,736</u>

\$130,241 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 138,855	\$ 39,175	\$ 178,030
2019	138,856	39,155	178,011
2020	195,665	27,274	222,939
2021	112,466	9,049	121,515
	<u>\$ 585,842</u>	<u>\$ 114,653</u>	<u>\$ 700,495</u>

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

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 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, 2016 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 June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset 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
	<u>100.00 %</u>	

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

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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	\$ 505,217	\$ 381,602	\$ 278,131

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

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

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's Proportionate Share of the Net Pension Liability	\$ 2,369,752	\$ 1,783,218	\$ 1,288,442

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

NOTE 9 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

Health Care Plan Description – On behalf of the School, Cambridge Education Group, LLC 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 HMOs, PPOs, 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.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

School Employees Retirement System (SERS) (continued)

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 2017, 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 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For fiscal years 2015, 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund; therefore, the School did not contribute to healthcare in the last three fiscal years.

State Teachers Retirement System (STRS)

Plan Description – On behalf of the School, CEG 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.

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 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to healthcare in the last three fiscal years.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 10 - CONTINGENCIES

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.

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

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the School for fiscal year 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

NOTE 11 - FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax-exempt organization.

NOTE 12 - SPONSORSHIP FEES

The School contracted with St. Aloysius Orphanage as its sponsor. The School pays the Sponsor two percent of the State Aid. Total fees for fiscal year 2017 were \$47,979. The Sponsor provides oversight, monitoring, and technical assistance for the School.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 13 - LEASE OBLIGATION

The School entered into a facility lease agreement for during fiscal year 2014 with Roosevelt Properties, LLC. The term of the lease is for five years at \$15,500 per month expiring in May 2018. The total rent paid during 2017 is \$186,000. The School paid a lease deposit of \$31,000 to secure the facility. Future minimum lease payment for 2018 is \$170,500.

NOTE 14 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2017, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the School.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

MARSHALL HIGH SCHOOL - BUTLER COUNTY, OHIO

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

NOTE 15 – MANAGEMENT COMPANY EXPENSES

As of June 30, 2017, Cambridge and its affiliates incurred the following expenses on behalf of the School:

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Vocational Instruction (1300 Function codes)	Other Instruction (1400 and 1900 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
<i>Direct expenses:</i>							
Salaries & wages (100 object codes)	\$ 322,139	\$ 174,491	\$ 47,500	\$ 53,500	\$ 394,699	\$ -	\$ 992,329
Employees' benefits (200 object codes)	35,148	30,833	965	13,105	32,876	-	112,927
Professional & technical services (410 object codes)	-	-	-	-	-	7,370	7,370
Supplies (500 object codes)	-	-	-	-	-	5,735	5,735
Other direct costs (All other object codes)	-	-	-	-	-	31,647	31,647
Overhead	-	-	-	-	86,751	40,660	127,411
Total expenses	\$ 357,287	\$ 205,324	\$ 48,465	\$ 66,605	\$ 514,326	\$ 85,412	\$1,277,419

Cambridge charges overhead expenses benefiting more than one school on a pro-rated basis based on full time equivalents (FTE) headcount as of June 30, 2017 for each school it manages.

Marshall High School - Butler County, Ohio

*Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years (1)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
State Teachers Retirement System (STRS)				
School's Proportion of the Net Pension Liability	0.00532733%	0.00437634%	0.00349699%	0.00349699%
School's Proportionate Share of the Net Pension Liability	\$ 1,783,218	\$ 1,209,492	\$ 850,589	\$ 1,013,216
School's Covered Payroll	\$ 552,514	\$ 465,171	\$ 375,962	\$ 410,331
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	322.75%	260.01%	226.24%	246.93%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
School's Proportion of the Net Pension Liability	0.00521380%	0.00496810%	0.00356100%	0.00356100%
School's Proportionate Share of the Net Pension Liability	\$ 381,602	\$ 283,485	\$ 180,220	\$ 211,761
School's Covered Payroll	\$ 159,514	\$ 165,258	\$ 106,573	\$ 75,759
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	239.23%	171.54%	169.11%	279.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

Marshall High School - Butler County, Ohio

*Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>School Employees Retirement System (SERS)</i>										
Contractually Required Contribution	\$ 22,272	\$ 22,332	\$ 21,781	\$ 14,771	\$ 10,485	\$ 7,977	\$ 8,193	\$ 11,100	\$ 8,819	\$ 8,662
Contributions in Relation to the Contractually Required Contribution	<u>(22,272)</u>	<u>(22,323)</u>	<u>(21,781)</u>	<u>(14,771)</u>	<u>(10,485)</u>	<u>(7,977)</u>	<u>(8,193)</u>	<u>(11,100)</u>	<u>(8,819)</u>	<u>(8,662)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 159,086	\$ 159,514	\$ 165,258	\$ 106,573	\$ 75,759	\$ 59,309	\$ 65,179	\$ 81,979	\$ 89,624	\$ 88,208
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>State Teachers Retirement System (STRS)</i>										
Contractually Required Contribution	\$ 107,969	\$ 77,352	\$ 65,124	\$ 48,875	\$ 53,343	\$ 64,088	\$ 80,414	\$ 82,940	\$ 64,939	\$ 61,958
Contributions in Relation to the Contractually Required Contribution	<u>(107,969)</u>	<u>(77,352)</u>	<u>(65,124)</u>	<u>(48,875)</u>	<u>(53,343)</u>	<u>(64,088)</u>	<u>(80,414)</u>	<u>(82,940)</u>	<u>(64,939)</u>	<u>(61,958)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 771,207	\$ 552,514	\$ 465,171	\$ 375,962	\$ 410,331	\$ 492,985	\$ 618,569	\$ 638,000	\$ 499,531	\$ 476,600
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

December 28, 2017

To the Board of Directors
Marshall High School
Butler County, Ohio
4720 Roosevelt Boulevard
Middletown, OH 45044

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall High School, Butler County, Ohio (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Cambridge, Ohio



Dave Yost • Auditor of State

LIFE SKILLS- MARSHALL HIGH SCHOOL

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2018**