



OHIO AUDITOR OF STATE
KEITH FABER



**ESCUELA SMART ELEMENTARY
LUCAS COUNTY
JUNE 30, 2019**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Escuela SMART Elementary
c/o Buckeye Community Hope Foundation (Sponsor)
Lucas County
3021 East Dublin-Granville Road
Columbus, Ohio 43231

To Escuela SMART Elementary:

Report on the Financial Statements

We have audited the accompanying financial statements of Escuela SMART Elementary, Lucas County, Ohio (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Escuela SMART Elementary, Lucas County, Ohio, as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the School closed on June 30, 2019. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2020, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

March 27, 2020

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2019 (UNAUDITED)

As management of Escuela SMART Elementary (the School) (formerly known as Toledo SMART Elementary School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the School are as follows:

- Total net position of the School decreased \$79,162 during the fiscal year. Ending net position of the School was negative \$415,700 compared with negative \$336,538 at June 30, 2018.
- Total assets increased \$168,040 from the prior fiscal year and total liabilities increased by \$414,218 during this same 12-month period.
- The Schools operating loss for fiscal year 2019 was \$386,730 which was a \$149,799 increase over the previous fiscal year operating loss of \$236,931.
- Total revenues of \$2,146,787 increased by \$25,740 over the previous year.

USING THIS ANNUAL FINANCIAL REPORT

This financial report consists of three parts: the basic financial statements, required supplemental information, and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Basic Financial Statements. The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during the fiscal year?" The statement of net position includes all assets and deferred outflows of resources and all liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement 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.

The statement of revenues, expenses and changes in net position reports the changes in net position. The change in net position is important because it tells the reader whether the financial position of the School has improved or diminished; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

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

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School’s net pension liability as well as the net liability for other post-employment benefits.

Table 1 provides a summary of the School’s net position at June 30, 2019 and June 30, 2018.

**Table 1
Net Position at Year End**

	2019	2018
Assets:		
Current Assets	\$ 325,622	\$ 92,372
Noncurrent Assets	104,228	-
Capital Assets, Net	40,269	209,707
Total Assets	<u>470,119</u>	<u>302,079</u>
Deferred Outflows of Resources:		
Pension	1,422,339	1,195,934
OPEB	228,135	75,885
Total Deferred Outflows of Resources	<u>1,650,474</u>	<u>1,271,819</u>
Liabilities:		
Current Liabilities	327,316	375,541
Noncurrent Liabilities	1,928,747	1,466,304
Total Liabilities	<u>2,256,063</u>	<u>1,841,845</u>
Deferred Inflows of Resources:		
Pension	105,144	40,631
OPEB	175,086	27,960
Total Deferred Inflows of Resources	<u>280,230</u>	<u>68,591</u>
Net Position:		
Net Investment in Capital Assets	40,269	99,997
Restricted	-	54,010
Unrestricted (deficit)	(455,969)	(490,545)
Total Net Position (deficit)	<u>\$ (415,700)</u>	<u>\$ (336,538)</u>

The School has adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” and GASB Statement 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School’s actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB (asset) liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

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

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*.

State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

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

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

Current and Other Assets increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of an increase in intergovernmental receivable, accounts receivable and the addition of the OPEB Asset per GASB 75 requirements. Capital Assets, Net decreased significantly. This decrease represents the sale and disposal of assets due to the school ceases operation at June 30, 2019 and closing.

Deferred Outflows of Resources also increased significantly. This increase is primarily the result of an increase in the School's proportionate share of the net pension and net OPEB liabilities due to the growth of the School.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

Table 2
Change in Net Position

	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Foundation Revenues	\$ 1,830,651	\$ 1,506,923
Other Unrestricted Grants in Aid	1,465	45,414
Total Operating Revenues	<u>1,832,116</u>	<u>1,552,337</u>
Operating Expenses:		
Salaries and Wages	1,051,448	959,757
Fringe Benefits	543,017	(5,535)
Purchased Services	488,521	670,508
Materials and Supplies	85,028	91,347
Depreciation	35,688	35,688
Other	15,144	37,503
Total Operating Expenses	<u>2,218,846</u>	<u>1,789,268</u>
Operating Loss	<u>(386,730)</u>	<u>(236,931)</u>
Non-Operating Revenues (Expenses):		
Federal and State Grants	287,794	322,512
Other Restricted Grants in Aid	-	234,783
Contributions and Donations	10,627	10,764
Gain on Sale of Vehicles	16,250	-
Interest Expense	(7,103)	(3,315)
Other	-	651
Total Non-Operating Revenues (Expenses)	<u>307,568</u>	<u>565,395</u>
Change in Net Position	(79,162)	328,464
Net Position (deficit), Beginning of Year	<u>(336,538)</u>	<u>(665,002)</u>
Net Position (deficit), End of Year	<u>\$ (415,700)</u>	<u>\$ (336,538)</u>

Table 2 shows the change in net position for the fiscal year ended June 30, 2019 and 2018. Total revenues remained consistent with the prior fiscal year. However, for 2018, Economic Disadvantaged Funding and Transportation revenue, which are included in monthly foundation settlements were recorded as 'Other Restricted Grants in Aid.' Under the Treasurer change in fiscal year 2019, these amounts were classified as Foundation Revenues.

This increase in operating expenses is primarily the result of an increase in enrollment from 188 students in fiscal year 2018 to 200 students in fiscal year 2019.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2019 (UNAUDITED)

CAPITAL ASSETS

At fiscal year-end, the School had \$40,269 invested in capital assets, an decrease of \$169,438 in comparison with the prior fiscal year-end. This decrease represents the amount in which current year sale/disposals of \$133,750 and current year depreciation of \$35,688. See Note 5 of the basic financial statements for additional details.

DEBT

At fiscal year-end, the School's notes payable balance was \$159,500, a decrease of \$76,479 in comparison with the prior fiscal year-end. This net decrease represents the amount in which current year principal payments totaling \$76,479. For more information on debt, see Note 7 to the basic financial statements.

CURRENT FINANCIAL ISSUES

Due to ongoing financial issues, the Board of Directors felt it was in the best interest of the School to close the School at the end of the fiscal year 2019. For more information regarding the closure and the financial activity subsequent to closure please see Note 17 to the basic financial statements.

CONTACTING THE SCHOOL

This financial report is designed to provide a general overview of the finances of the Escuela SMART Elementary and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Escuela SMART Elementary, 219 East Maple Street, Suite 202, North Canton, Ohio 44720.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

**STATEMENT OF NET POSITION
At JUNE 30, 2019**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 178,109
Accounts Receivable	70,714
Intergovernmental Receivable	52,491
Other Assets	<u>24,308</u>
Total Current Assets	<u>325,622</u>

Noncurrent Assets:

OPEB Asset	104,228
Capital Assets, net of Accumulated Depreciation	<u>40,269</u>
Total Noncurrent Assets	<u>144,497</u>

Total Assets	<u>470,119</u>
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Deferred Outflows of Resources:

Pension	1,422,339
OPEB	<u>228,135</u>
Total Deferred Outflows of Resources	<u>1,650,474</u>

Liabilities:

Current Liabilities:

Accounts Payable, Trade	30,066
Withholdings Payable	6,438
Accrued Wages and Benefits	104,490
Capital Lease Payable	26,822
Current Portion of Long-Term Debt	<u>159,500</u>
Total Current Liabilities	<u>327,316</u>

Noncurrent Liabilities:

Net Pension Liability	1,763,570
Net Benefit Liability	<u>165,177</u>
Total Noncurrent Liabilities	<u>1,928,747</u>
Total Liabilities	<u>2,256,063</u>

Deferred Inflows of Resources:

Pension	105,144
OPEB	<u>175,086</u>
Total Deferred Inflows of Resources	<u>280,230</u>

Net Position:

Net Investment in Capital Assets	40,269
Unrestricted (deficit)	<u>(455,969)</u>
Total Net Position (deficit)	<u>\$ (415,700)</u>

See Accompanying Notes to the Basic Financial Statements

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Operating Revenues:	
State Aid	\$ 1,830,651
Miscellaneous	1,465
Total Operating Revenues	<u>1,832,116</u>
Operating Expenses:	
Salaries	1,051,448
Fringe Benefits	543,017
Purchased Services	488,521
Depreciation	35,688
Materials and Supplies	85,028
Other	15,144
Total Operating Expenses	<u>2,218,846</u>
Operating Loss	<u>(386,730)</u>
Non-Operating Revenues and (Expenses):	
Federal Grants	287,794
Gain on the Sale of Vehicles	16,250
Contributions and Donations	10,627
Interest Expense	(7,103)
Net Nonoperating Revenues and (Expenses)	<u>307,568</u>
Change in Net Position	(79,162)
Net Position (deficit), Beginning of Year	<u>(336,538)</u>
Net Position (deficit), End of Year	<u>\$ (415,700)</u>

See Accompanying Notes to the Basic Financial Statements

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$ 1,817,374
Other Operating Expenses	(9,248)
Cash Payments to Suppliers for Goods and Services	(643,443)
Cash Payments to Employees for Services	(1,045,131)
Cash Payments for Employee Benefits	<u>(280,631)</u>
Net Cash Used For Operating Activities	<u>(161,079)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from the Sale of Vehicles	90,000
Note Principal Payments	<u>(76,479)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>13,521</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Contributions and Donations	10,627
Federal and State Grant Receipts	284,060
Interest Expense	<u>(7,103)</u>
Net Cash Provided by Noncapital Financing Activities	<u>287,584</u>

Net Increase in Cash and Cash Equivalents 140,026

Cash and Cash Equivalents - Beginning of the Year	<u>38,083</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 178,109</u>

See Accompanying Notes to the Basic Financial Statements

(Continued)

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

Reconciliation of Operating Loss to Net Cash Used For Operating Activities

Operating Loss \$ (386,730)

**Adjustments to Reconcile Operating Loss to
Net Cash Used For Operating Activities:**

Depreciation 35,688

Changes in Assets, Liabilities, and Deferred Inflows and Outflows:

Increase in Withholdings Payable 6,438

Increase in Receivables (20,018)

Increase in Deferred Outflows (482,883)

Increase in Deferred Inflows 211,639

Increase in Net Pension Liability 527,192

Increase in Other Assets (9,472)

Decrease in Capital Leases Payable (6,409)

Decrease in Accounts Payable, Trade (13,744)

Decrease in Accrued Expenses (29,098)

Increase in Accrued Wages & Benefits 6,318

Net Cash Used For Operating Activities \$ (161,079)

See Accompanying Notes to the Basic Financial Statements

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Escuela SMART Elementary (formerly known as Toledo SMART Elementary School) (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through fourth. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

The Buckeye Community Hope Foundation is the School's sponsor. 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 entered into a service agreement with Massa Financial Solutions on October 1, 2018 to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School.

The School operates under the direction of a six-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 7 non-certified and 20 certificated full-time teaching personnel who provide services to 200 students.

The School closed operations effective June 30, 2019 (see Note 17).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 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.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each part 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 expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Land Improvements	10 years
Building and Improvements	25 years
Leasehold Improvements	Remaining Term of Lease (NTE 5 years)
Furniture and Equipment	5 years
Technology Equipment	3 years
Vehicles	7 years

F. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year which services are consumed. These items are classified as Other Assets in the School's basic financial statements.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement 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(s) 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 pensions and other postemployment benefits (OPEB). These deferred outflows of resources related to pensions and OPEB are explained in Note 9 and Note 10.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. This deferred inflow of resources related to pension and OPEB are explained in Note 9 and Note 10.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of fiscal year-end, including:

Accounts Payable – Payments due for services or goods that were rendered or received during fiscal year 2019.

Withholdings Payable – Payments made after year-end for the School’s share of retirement contributions and Medicare associated with services rendered during the fiscal year.

Accrued Wages and Benefits – Salary and benefit payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2019 contract.

Capital Lease Payable – Payments made after year end to satisfy the copier lease obligations due to the finance company. Copiers were returned prior to fiscal year end. (Also see note 6).

J. Intergovernmental Revenues

The School is a participant in the State Foundation Program. In addition, the State distributes among all public schools, a percentage of proceeds received from the tax on gross casino revenue, to be used to support primary and secondary education. Foundation funding and casino revenues are both recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

K. Pensions and Other Postemployment Benefits (OPEB)

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

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation and related payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

N. 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 those estimates.

NOTE 3 – DEPOSITS

At June 30, 2019, the carrying amount of the School's deposits was \$178,109 and the bank balance was \$221,822. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2019, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 – RECEIVABLES

Intergovernmental receivables and accounts receivable at June 30, 2019 were \$123,205. All receivables are considered collectible in full.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$ 60,878	\$ -	\$ -	\$ 60,878
Vehicles**	234,902	-	(234,902)	-
<i>Total Capital Assets</i>	<u>295,780</u>	<u>-</u>	<u>(234,902)</u>	<u>60,878</u>
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(12,968)	(7,641)		(20,609)
Vehicles	(73,105)	(28,047)	101,152	-
<i>Total Accumulated Depreciation</i>	<u>(86,073)</u>	<u>(35,688)</u>	<u>101,152</u>	<u>(20,609)</u>
Capital Assets, Net	<u>\$ 209,707</u>	<u>\$ (35,688)</u>	<u>\$ (133,750)</u>	<u>\$ 40,269</u>

** Related to the School's closure, the School sold three buses at the end of the fiscal year. See Note 7

NOTE 6 – CAPITAL LEASE

The School has entered into a lease agreement with De Lage Landen Financial Services for the lease of two copiers with accessories. The term of the lease is 60 months and the first payment was made on April 5, 2018 with required payments of \$583 per month. Lease payments during the fiscal year totaled \$6,409. At June 30, 2019, the School closed and ceased operations. Subsequent to year end, the copiers were returned and the School settled its obligations with the leasing company.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 7 – LONG TERM OBLIGATIONS

At June 30, 2019, the School had the following long-term obligations:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Net Pension/ OPEB Liability:					
Pension	\$ 1,156,860	\$ 606,710	\$ -	\$ 1,763,570	\$ -
OPEB	244,695	-	(79,518)	165,177	-
Total Pension/ OPEB Liabilities	1,401,555	606,710	(79,518)	1,928,747	-
Mangen Note	159,500	-	-	159,500	159,500
Bus Loan FY16	20,249	-	(20,249)	-	-
Bus Loan FY18	56,230	-	(56,230)	-	-
Total Loans	235,979	-	(76,479)	159,500	-
Total Long-Term Obligations	<u>\$ 1,637,534</u>	<u>\$ 606,710</u>	<u>\$ (155,997)</u>	<u>\$ 2,088,247</u>	<u>\$ 159,500</u>

In August 2015, the School entered into a promissory note with Mangen Family Foundation for operation and administrative activities, replacing a March 2015 note. The note carries an interest rate of 0% and a maturity date of June 30, 2018. As of the date of this report, the School and Mangen Family Foundation were unable to reach agreement regarding terms of repayment of the note. No legal action was taken to pursue collection by the Foundation. This amount was treated as an unsecured debt and was partially satisfied. See Note 17 for additional information.

In September 2015, the School borrowed \$78,981 to finance the purchase of a school bus. The note carries an interest rate of 5.55% and a maturity date of September 8, 2018.

In August 2017, the School borrowed \$77,146 to finance the purchase of a school bus. The note carries an interest rate of 5.69% and a maturity date of August 1, 2021.

Once the School year ended and the School closed, both of the financed buses and a third bus that the School owned were sold to Toledo Public Schools in June 2019 for \$150,000. The remaining note obligations were paid off and vehicles were removed from the School's capital assets.

NOTE 8 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the School contracted with Accord Insurance Company for general liability, property insurance, educational errors and omissions insurance.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 8 – RISK MANAGEMENT (Continued)

Coverages are as follows:

Building Contents (\$1,000 deductible)	\$ 300,000
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior fiscal year.

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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 the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019. The School’s contractually required contribution to SERS was \$33,430 for fiscal year 2019.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position.

That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through 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. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 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. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. 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 DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits.

Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, 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 2019 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$108,423 for fiscal year 2019.

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

The net pension liability was measured as of June 30, 2018, 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>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.00316650%	0.00407350%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.00589070%</u>	<u>0.00648633%</u>	
Change in Proportionate Share	<u>0.00272420%</u>	<u>0.00241283%</u>	
Proportionate Share of the Net Pension			
Liability	337,371	1,426,199	1,763,570
Pension Expense	132,656	454,015	586,671

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2019 the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	18,502	32,922	51,424
Changes of assumptions	7,620	252,749	260,369
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	131,640	837,053	968,693
School contributions subsequent to the measurement date	<u>33,430</u>	<u>108,423</u>	<u>141,853</u>
Total Deferred Outflows of Resources	<u><u>191,192</u></u>	<u><u>1,231,147</u></u>	<u><u>1,422,339</u></u>
Deferred Inflows of Resources			
Differences between expected and actual experience	-	9,313	9,313
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	9,346	86,485	95,831
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Total Deferred Inflows of Resources	<u><u>9,346</u></u>	<u><u>95,798</u></u>	<u><u>105,144</u></u>

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

\$141,853 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2020	113,910	442,086	555,996
2021	48,443	347,163	395,606
2022	(11,071)	165,513	154,442
2023	(2,866)	72,164	69,298
	-		-
	-		-
Total	<u>148,416</u>	<u>1,026,926</u>	<u>1,175,342</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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

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

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

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

Discount Rate 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 that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the School'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	\$475,213	\$337,371	\$221,800

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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:

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	\$2,082,775	\$1,426,199	\$870,495

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Asset/Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School's surcharge obligation was \$4,921.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$6,159 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB asset/liability was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.00319560%	0.00407350%	
Proportion of the Net OPEB Liability/asset			
Current Measurement Date	<u>0.00595390%</u>	<u>0.00648633%</u>	
Change in Proportionate Share	<u><u>0.00275830%</u></u>	<u><u>0.00241283%</u></u>	
Proportionate Share of the Net OPEB			
Liability/(asset)	165,177	(104,228)	60,949
OPEB Expense	23,841	(206,552)	(182,711)

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 2,697	\$ 12,174	\$ 14,871
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	77,877	129,228	207,105
School contributions subsequent to the measurement date	<u>6,159</u>	<u>-</u>	<u>6,159</u>
Total Deferred Outflows of Resources	<u>\$ 86,733</u>	<u>\$ 141,402</u>	<u>\$ 228,135</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 6,073	\$ 6,073
Changes of assumptions	14,840	142,018	156,858
Net difference between projected and actual earnings on OPEB plan investments	248	11,907	12,155
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>\$ 15,088</u>	<u>\$ 159,998</u>	<u>\$ 175,086</u>

\$6,159 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2020	11,824	(3,488)	8,336
2021	11,910	(3,488)	8,422
2022	12,174	(3,489)	8,685
2023	12,282	(782)	11,500
2024	12,264	167	12,431
Thereafter	<u>5,032</u>	<u>(7,516)</u>	<u>(2,484)</u>
Total	<u><u>65,486</u></u>	<u><u>(18,596)</u></u>	<u><u>46,890</u></u>

Actuarial Assumptions - SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

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

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent).

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School's proportionate share of the net OPEB liability	\$200,430	\$165,177	\$137,264
	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
School's proportionate share of the net OPEB liability	\$133,268	\$165,177	\$207,431

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate The discount rate used to measure the total OPEB asset/liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net OPEB asset	\$89,334	\$104,228	\$116,747
		Current Trend Rate	
	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB asset	\$116,041	\$104,228	\$92,233

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 11 – EMPLOYEE BENEFITS

Insurance Benefits

Health, Dental and Vision insurance coverage is provided through United Health Care, Superior Dental Care, and VSP, respectively. The School pays 80 percent for all coverages and the employee pays 20 percent.

NOTE 12 – SPONSOR CONTRACT

The School contracted with Buckeye Community Hope Foundation as its sponsor and oversight services as required by law. Sponsorship fees are calculated as three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2019, the total sponsorship fees paid totaled \$52,999.

NOTE 13 – PURCHASED SERVICES

During the fiscal year ended June 30, 2019, other purchased service expenses for services rendered by various vendors were as follows:

<u>Purchased Services</u>	<u>Amount</u>
Professional Services	\$ 210,323
Property Services	86,951
Utilities	44,845
Travel & Meetings	7,736
Communications	8,022
Contractual Trade	130,644
Total	<u>\$488,521</u>

NOTE 14 - CONTINGENCIES

Grants - The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2019, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.

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.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 14 – CONTINGENCIES – (Continued)

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 an FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2019 and determined the School was under paid by \$13,237. This amount is reported as intergovernmental receivable on the Statement of Net Position.

In addition, the School's contract with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 were required and have been finalized. The impact on the fiscal year 2019 financial statements, related to additional reconciliation necessary with this contract resulted in an increase of \$397 owed to the School's sponsor. This amount is not material to the School's financial statements at fiscal year-end and has not been recorded.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2019, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School.

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the School's fiscal year 2019 financial statements; however, there was no effect on beginning net position.

NOTE 16 – NAME CHANGE

During the fiscal year, the School's Board of Director's voted to change the name of the School to *Escuela SMART Elementary* from Toledo SMART Elementary.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 17 – SCHOOL CLOSURE AND SUBSEQUENT FISCAL ACTIVITY

On April 30, 2019 the Board of Directors voted to close the School and consolidate its operations with Toledo Public Schools. The School is performing closing procedures as required by the Ohio Department of Education and as of the date of this report has distributed its remaining assets in accordance with State law. The School has followed closeout procedures prescribed by the Ohio Department of Education (ODE), regarding official notices to ODE, retirement systems, students, staff and the community. Disposition of student records and property owned by the School have also been in accordance with ODE requirements.

The financial activity of the School for the period July 1, 2019 through February 13, 2020 is summarized in tables on the following page.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 17 – SCHOOL CLOSURE AND SUBSEQUENT FISCAL ACTIVITY (Continued)

As of the date of this report, the financial activity of the School for the period July 1, 2019 through February 13, 2020 is summarized in the following tables.

Statement of Net Position		Operating Statement	
Assets:		Revenue:	
Cash and Cash Equivalents	\$ 92,768	State Aid	\$ 5,638
Accounts Receivable	<u>13,636</u>	Total Revenues	<u>5,638</u>
Total Assets	<u>106,404</u>	Expenses:	
Liabilities:		Fringe Benefits	45,200
Accounts Payable	7,643	Purchased Services	22,426
Long-Term Obligations	<u>98,761</u>	Other Expenses	<u>23,380</u>
Total Liabilities	<u>106,404</u>	Total Expenses	<u>\$91,006</u>
Net Position:		Net Decrease in Net Position	(85,368)
Total Net Position	<u>\$ -</u>	Non-Operating Revenues/ (Expenses):	
		Write-off of Capital Lease	15,822
		Debt Forgiveness	60,739
		Loss on Sale of Assets	<u>(29,768)</u>
		Total Non-Operating Revenues/ (Expenses):	<u>\$46,793</u>
		Net Decrease in Net Position	(38,575)
		Net Position - July 1, 2019	<u>38,575</u>
		Net Position - February 13, 2020	<u>\$ -</u>

Net Position at July 1, 2019 excludes any liabilities, deferred inflows of resources and deferred outflows of resources relating to the Academy's net pension liability, net OPEB liability and OPEB Asset.

The School's buses were sold outright to Toledo Public Schools. The remaining capital assets were auctioned off in July 2019. All proceeds were used to pay the remaining liabilities of the School.

The School's remaining cash as reflected above will be utilized to pay a few remaining invoices related to the audit and legal services, as well as a payment of \$98,500 against the outstanding note balance.

Final assurances regarding completion of all required closeout procedures will be provided by the sponsor to ODE. Additionally, the remaining bank account will be closed and the 501C3 nonprofit corporation will be dissolved.

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

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

	2019	2018	2017	2016
School's Proportion of the Net Pension Liability	0.0058907%	0.0031665%	0.0022487%	0.0011486%
School's Proportionate Share of the Net Pension Liability	\$ 337,371	\$ 189,191	\$ 164,584	\$ 65,540
School's Covered Payroll	\$ 193,022	\$ 105,121	\$ 75,564	\$ 34,575
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	174.78%	179.97%	217.81%	189.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

Required Supplementary Information
 Schedule of the School's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
School's Proportion of the Net Pension Liability	0.0064863%	0.0040735%	0.0029414%	0.0011274%
School's Proportionate Share of the Net Pension Liability	\$ 1,426,199	\$ 967,669	\$ 984,589	\$ 311,578
School's Covered Payroll	\$ 766,743	\$ 466,293	\$ 336,886	\$ 129,500
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	186.01%	207.52%	292.26%	240.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.29%	66.80%	72.10%

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

Required Supplementary Information
 Schedule of School Contributions - Pension
 School Employees Retirement System of Ohio
 Last Five Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 33,430	\$ 26,058	\$ 14,717	\$ 10,579	\$ 4,557
Contributions in Relation to the Contractually Required Contribution	<u>(33,430)</u>	<u>(26,058)</u>	<u>(14,717)</u>	<u>(10,579)</u>	<u>(4,557)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
School Covered Payroll	\$ 247,630	\$ 193,022	\$ 105,121	\$ 75,564	\$ 34,575
Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%	13.18%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

Required Supplementary Information
 Schedule of School Contributions - Pension
 State Teachers Retirement System of Ohio
 Last Five Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 108,423	\$ 107,344	\$ 65,281	\$ 47,164	\$ 18,130
Contributions in Relation to the Contractually Required Contribution	<u>(108,423)</u>	<u>(107,344)</u>	<u>(65,281)</u>	<u>(47,164)</u>	<u>(18,130)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 774,450	\$ 766,743	\$ 466,293	\$ 336,886	\$ 129,500
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	14.00%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

Required Supplementary Information
 Schedule of the School's Proportionate Share of the Net OPEB Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
School's Proportion of the Net OPEB Liability	0.0059539%	0.0031956%	0.0025173%
School's Proportionate Share of the Net OPEB Liability	\$ 165,177	\$ 85,762	\$ 71,751
School's Covered Payroll	\$ 193,020	\$ 105,123	\$ 75,562
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	85.58%	81.58%	94.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

Required Supplementary Information
 Schedule of the School's Proportionate Share of the Net OPEB
 Liability/(Asset)

State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2019	2018	2017
School's Proportion of the Net OPEB Liability/Asset	0.00648633%	0.00407350%	0.00294144%
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (104,228)	\$ 158,933	\$ 157,309
School's Covered Payroll	\$ 766,739	\$ 466,291	\$ 336,890
School's Proportionate Share of the Net OPEB Liability/Asset as a Percentage of its Covered Payroll	-13.59%	34.08%	46.69%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	176.00%	47.11%	37.30%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

ESCUELA SMART ELEMENTARY - LUCAS COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions - OPEB
School Employees Retirement System of Ohio
Last Five Fiscal Years (1)

	2019	2018	2017	2016	2015
Contractually Required Contribution (2)	\$ 6,159	\$ 4,083	\$ 1,660	\$ 1,118	\$ 829
Contributions in Relation to the Contractually Required Contribution	(6,159)	(4,083)	(1,660)	(1,118)	(829)
Contribution Deficiency (Excess)	-	-	-	-	-
School Covered Payroll	\$ 247,630	\$ 193,020	\$ 105,123	\$ 75,562	\$ 34,577
OPEB Contributions as a Percentage of Covered Payroll (2)	2.49%	2.12%	1.58%	1.48%	2.40%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

Required Supplementary Information
Schedule of School Contributions - OPEB
State Teachers Retirement System of Ohio
Last Five Fiscal Years (1)

	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School Covered Payroll	\$ 774,450	\$ 766,739	\$ 466,291	\$ 336,890	\$ 129,501
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - NET PENSION LIABILITY

Changes in Assumptions - SERS

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

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

Changes in Benefit Terms - SERS

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

Changes in Assumptions – STRS

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

Changes in Benefit Terms - STRS

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

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 2 - NET OPEB LIABILITY

Changes in Assumptions – SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare

Fiscal year 2018	7.50 percent initially, decreasing to 4.00 percent
Fiscal year 2019	7.25 percent initially, decreasing to 4.75 percent

Medicare

Fiscal year 2018	5.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019	5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

Changes in Assumptions – STRS

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of -5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes in Benefit Terms – STRS

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service.

ESCUELA SMART ELEMENTARY – LUCAS COUNTY, OHIO

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. This was subsequently extended, see above paragraph.

OHIO AUDITOR OF STATE KEITH FABER



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

Escuela SMART Elementary
c/o Buckeye Community Hope Foundation (Sponsor)
Lucas County
3021 East Dublin-Granville Road
Columbus, Ohio 43231

To Escuela SMART Elementary:

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 Escuela SMART Elementary, Lucas County, Ohio (the School) as of and for the year ended June 30, 2019, 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 27, 2020, wherein we noted the School closed on June 30, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2019-001 to be a significant deficiency.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 27, 2020

ESCUELA SMART ELEMENTARY
LUCAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2019

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

FINDING NUMBER 2019-001

Significant Deficiency

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Accurate financial reporting is the responsibility of management and is essential to ensure the information provided to the readers of the financial statements accurately reflects the School's activity. The School should have procedures in place to prevent or detect material misstatements for the accurate presentation of the School's financial statements.

The following errors were noted in the Statement of Cash Flows for the fiscal year ended June 30, 2019:

- Proceeds from the sale of vehicles of \$90,000 were classified as cash flows from investment activities rather than cash flows from capital and related financing activities;
- Note principal payments of \$76,479 were classified as cash flows for noncapital financing activities rather than cash flows for capital and related financing activities.

Additionally, we noted the promissory note with the Mangen Family Foundation that matured on June 30, 2018, with a balance of \$159,500 outstanding at June 30, 2019, was recorded as a noncurrent liability rather than as a current liability due within one year.

These errors were not identified and corrected prior to the School filing its annual report due to deficiencies in the School's internal controls over financial statement preparation and monitoring. The accompanying financial statements have been adjusted to reflect these changes.

To help ensure the School's financial statements and notes to the financial statements are complete and accurate and to help identify and correct errors and omissions, the School should adopt policies and procedures, including a final review of the statements by the Treasurer and the governing board.

Officials' Response:

We did not receive a response from Officials to this finding.

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OHIO AUDITOR OF STATE KEITH FABER



ESCUELA SMART ELEMENTARY

LUCAS 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
APRIL 9, 2020**