



Dave Yost • Auditor of State

**SCIOTOVILLE ELEMENTARY ACADEMY
SCIOTO COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Sciotoville Elementary Academy
Scioto County
224 Marshall Avenue
Sciotoville, Ohio 45662

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Sciotoville Elementary Academy, Scioto County, Ohio (the Academy), a component unit of the Sciotoville Community School, Scioto County, Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy'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 Academy'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 Academy'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 the Sciotoville Elementary Academy, Scioto County, Ohio, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017, on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2017

SCIOTOVILLE ELEMENTARY ACADEMY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

Financial Highlights

- Net position increased \$109,201 which was due to current year revenues exceeding current year expenses.
- Total Revenues increased \$25,752, while total expenses decreased \$81,927. The School's expenses for salaries, fringe benefits and other expenses decreased which was partially offset by an increase in purchased services expenses.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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 fiscal year 2016?" These statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and liabilities and deferred inflows of resources are reported, both short and long-term. These statements use the accrual basis of accounting, 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 fiscal year, regardless of when the cash is received or paid.

SCIOTOVILLE ELEMENTARY ACADEMY

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

Table 1 provides a summary of the Academy's net position for fiscal year 2016 and fiscal year 2015:

(Table 1)
Net Position

| | 2016 | 2015 | Increase/ (Decrease) |
|---------------------------------------|---------------------------|-----------------------------|-------------------------|
| Assets: | | | |
| Current Assets | \$667,263 | \$586,206 | \$81,057 |
| Depreciable Capital Assets, Net | 237,494 | 266,270 | (28,776) |
| <i>Total Assets</i> | <u>904,757</u> | <u>852,476</u> | <u>52,281</u> |
| Deferred Outflow of Resources: | | | |
| Pension | <u>\$179,934</u> | <u>\$106,412</u> | <u>\$73,522</u> |
| Liabilities: | | | |
| Current Liabilities | 127,480 | 148,450 | (20,970) |
| Non-Current Liabilities | 1,638,816 | 1,606,558 | 32,258 |
| <i>Total Liabilities</i> | <u>1,766,296</u> | <u>1,755,008</u> | <u>11,288</u> |
| Deferred Inflow of Resources: | | | |
| Pension | <u>297,651</u> | <u>292,337</u> | <u>5,314</u> |
| Net Position: | | | |
| Invested in Capital Assets | 237,494 | 266,270 | (28,776) |
| Restricted for Federal Grants | 39,054 | 19,650 | 19,404 |
| Unrestricted (Deficit) | <u>(1,255,804)</u> | <u>(1,374,377)</u> | <u>118,573</u> |
| <i>Total Net Position (Deficit)</i> | <u><u>(\$979,256)</u></u> | <u><u>(\$1,088,457)</u></u> | <u><u>\$109,201</u></u> |

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

SCIOTOVILLE ELEMENTARY ACADEMY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

GASB 68 requires the net pension liability to equal the Academy's proportionate share of each plan's collective:

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

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

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

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

Current Assets increased \$81,057 due to an increase in intergovernmental receivables. The increase was associated with the Academy receiving additional federal grant monies compared to the prior fiscal year. Depreciable Capital Assets, Net decreased \$28,776 due to current year depreciation.

Invested in Capital Assets decreased \$28,776 due to current year depreciation.

SCIOTOVILLE ELEMENTARY ACADEMY

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

Total net position increased \$109,201. Unrestricted net position, when viewed alone, experienced an increase of \$118,573 when compared to the prior fiscal year. This is mainly the result of a reduction in expenses compared to the prior fiscal year.

Table 2 shows the changes in net position for fiscal year 2016 and fiscal year 2015, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Position

| | 2016 | 2015 | Increase/ (Decrease) |
|--|--------------------|----------------------|-------------------------|
| Operating Revenues: | | | |
| Foundation Payments | \$1,055,227 | \$1,035,599 | \$19,628 |
| Other Revenues | 4,786 | 40,381 | (35,595) |
| Non-Operating Revenues: | | | |
| Other Federal and State Grants | 180,389 | 160,797 | 19,592 |
| Other Grants | 96,867 | 74,008 | 22,859 |
| Other Non-Operating Revenues | 562 | 1,294 | (732) |
| <i>Total Revenues</i> | <u>1,337,831</u> | <u>1,312,079</u> | <u>25,752</u> |
| Operating Expenses: | | | |
| Salaries | 601,100 | 667,207 | (66,107) |
| Fringe Benefits | 187,551 | 222,548 | (34,997) |
| Purchased Services | 346,621 | 273,333 | 73,288 |
| Materials and Supplies | 45,267 | 55,063 | (9,796) |
| Depreciation | 28,776 | 40,170 | (11,394) |
| Other Expenses | 19,315 | 52,236 | (32,921) |
| <i>Total Expenses</i> | <u>1,228,630</u> | <u>1,310,557</u> | <u>(81,927)</u> |
| Increase (Deficit) in Net Position | 109,201 | 1,522 | 107,679 |
| <i>Net Position (Deficit) at Beginning of Year</i> | <u>(1,088,457)</u> | <u>(1,089,979)</u> | <u>1,522</u> |
| <i>Net Position (Deficit) at End of Year</i> | <u>(\$979,256)</u> | <u>(\$1,088,457)</u> | <u>\$109,201</u> |

Net Position increased \$109,201 compared to the prior fiscal year.

The Academy saw an increase in revenues mainly from receiving more grants compared to the prior fiscal year. Expenses overall decreased \$81,927 due to a reduction in expenses compared to fiscal year 2015.

SCIOTOVILLE ELEMENTARY ACADEMY

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

Capital Assets

At the end of fiscal year 2016, the Academy had \$237,494 invested in land improvements, buildings and improvements, and furniture, fixtures and equipment, which represented a decrease of \$28,776 compared to the prior fiscal year. The decrease was a result of current fiscal year depreciation.

For more information on capital assets see Note 5 to the basic financial statements.

Subsequent Event

An application has been made for the Academy to combine with the Sciotoville Community School with the intent to begin July 1, 2017. As of the date of this report, the combination is in the application stage and a final decision has not been made.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Andrew T. Riehl, Treasurer by calling (740) 354-0234, writing to the Sciotoville Elementary Academy, 224 Marshall Avenue, Sciotoville, Ohio 45662 or e-mail at andy.riehl@scoesc.org.

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SCIOTOVILLE ELEMENTARY ACADEMY

Statement of Net Position

June 30, 2016

Assets:

Current Assets:

| | |
|-------------------------------|----------------|
| Cash and Cash Equivalents | \$568,915 |
| Intergovernmental Receivables | 98,348 |
| <i>Total Current Assets</i> | <u>667,263</u> |

Non-Current Assets:

Capital Assets:

| | |
|---------------------------------|----------------|
| Depreciable Capital Assets, Net | <u>237,494</u> |
|---------------------------------|----------------|

| | |
|---------------------|----------------|
| <i>Total Assets</i> | <u>904,757</u> |
|---------------------|----------------|

Deferred Outflows of Resources:

| | |
|---------|----------------|
| Pension | <u>179,934</u> |
|---------|----------------|

Liabilities:

Current Liabilities:

| | |
|------------------------------------|----------------|
| Accounts Payable | 1,360 |
| Accrued Wages and Benefits Payable | 112,009 |
| Intergovernmental Payable | 14,111 |
| <i>Total Current Liabilities</i> | <u>127,480</u> |

Non-Current Liabilities:

Due In More Than One Year

| | |
|------------------------------------|------------------|
| Net Pension Liability (See Note 7) | <u>1,638,816</u> |
|------------------------------------|------------------|

| | |
|--------------------------|------------------|
| <i>Total Liabilities</i> | <u>1,766,296</u> |
|--------------------------|------------------|

Deferred Inflows of Resources:

| | |
|---------|----------------|
| Pension | <u>297,651</u> |
|---------|----------------|

Net Position:

| | |
|-------------------------------|--------------------|
| Invested in Capital Assets | 237,494 |
| Restricted for Federal Grants | 39,054 |
| Unrestricted (Deficit) | <u>(1,255,804)</u> |

| | |
|-------------------------------------|---------------------------|
| <i>Total Net Position (Deficit)</i> | <u><u>(\$979,256)</u></u> |
|-------------------------------------|---------------------------|

See accompanying notes to the basic financial statements

SCIOTOVILLE ELEMENTARY ACADEMY

Statement of Revenues, Expenses and

Changes in Net Position

For the Fiscal Year Ended June 30, 2016

Operating Revenues:

| | |
|---------------------|-------------|
| Foundation Payments | \$1,055,227 |
| Other Revenues | 4,786 |

Total Operating Revenues 1,060,013

Operating Expenses:

| | |
|------------------------|---------|
| Salaries | 601,100 |
| Fringe Benefits | 187,551 |
| Purchased Services | 346,621 |
| Materials and Supplies | 45,267 |
| Depreciation | 28,776 |
| Other Expenses | 19,315 |

Total Operating Expenses 1,228,630

Operating Loss (168,617)

Non-Operating Revenues:

| | |
|--------------------------------|---------|
| Other Federal and State Grants | 180,389 |
| Other Grants | 96,867 |
| Other Non-Operating Revenues | 562 |

Total Non-Operating Revenues 277,818

Change in Net Position 109,201

Net Position (Deficit) at Beginning of Year (1,088,457)

Net Position (Deficit) at End of Year (\$979,256)

See accompanying notes to the basic financial statements

SCIOTOVILLE ELEMENTARY ACADEMY

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

| | |
|---|-----------|
| Cash Received from Others | \$4,786 |
| Cash Received from Foundation Payments | 1,055,227 |
| Cash Payments to Suppliers for Goods and Services | (391,339) |
| Cash Payments to Employees for Services | (616,406) |
| Cash Payments for Employee Benefits | (229,703) |
| Cash Payments to Others | (19,315) |

Net Cash Used for Operating Activities (196,750)

Cash Flows from Noncapital Financing Activities:

| | |
|---|---------|
| Other Non-Operating Revenues | 1,257 |
| Other Grants Received | 91,323 |
| Other Federal and State Grants Received | 113,894 |

Net Cash Provided by Noncapital Financing Activities 206,474

Net Increase in Cash and Cash Equivalents 9,724

Cash and Cash Equivalents at Beginning of Year 559,191

Cash and Cash Equivalents at End of Year \$568,915
(continued)

See accompanying notes to the basic financial statements

SCIOTOVILLE ELEMENTARY ACADEMY

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2016

(continued)

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss (\$168,617)

Adjustments to Reconcile Operating

Loss to Net Cash Used for Operating Activities:

Depreciation 28,776

Changes in Assets and Liabilities:

Increase in Deferred Outflows (73,522)

Increase in Accounts Payable 549

Decrease in Accrued Wages and Benefits Payable (22,229)

Increase in Intergovernmental Payable 721

Increase in Deferred Inflows 5,314

Increase in Net Pension Liability 32,258

Total Adjustments (28,133)

Net Cash Used for Operating Activities (\$196,750)

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Sciotoville Elementary Academy of Sciotoville, Inc. (the “Academy”) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades Pre-K through sixth. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. Sciotoville Elementary Academy 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 Academy’s tax exempt status. Due to the Board of Directors of the Sciotoville Community School serving as the Board of Directors of the Academy, the Academy is considered a component unit of the Sciotoville Community School and is included as a blended component unit in its general purpose external financial statements.

On June 25, 2015, the Thomas B. Fordham Institute signed a contract with the School to be the School’s Sponsor effective July 1, 2015. The agreement is for the period of July 1, 2015 through June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Board of Directors. The Board members are elected at-large by the citizens of the community for staggered four-year terms. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy’s two instructional/support facilities staffed by seven non-certified and 11 certified full-time teaching personnel who provide services to 131 students.

The Academy participates in the Optimal Health Initiatives Consortium which is defined as a public entity shared risk pool and is presented in Note 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy 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 standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy’s accounting policies are described below.

Basis Of Presentation

The Academy’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.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the fiscal year, the Academy segregates transactions related to certain Academy functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the Academy uses a single enterprise fund presentation.

Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus

The accounting and financial reporting treatment of the Academy's financial transactions is determined by the Academy's measurement focus. Enterprise fund 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 (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets its cash flow needs.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurements made. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Academy's Treasurer accounts for all monies received by the Academy. The Academy maintains a depository account for all funds of the Academy. This account is presented on the Statement of Net Position as "Cash and Cash Equivalents". For purposes of the Statement of Net Position, investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include pension. This amount is deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 7)

Pensions

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

Capital Assets

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of \$1,000 for all capital assets other than computers. The capitalization threshold for computers is \$500. The Academy does not possess any infrastructure. 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 capitalized.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets 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:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Land Improvements | 20 years |
| Buildings and Improvements | 50 years |
| Furniture, Fixtures and Equipment | 3 - 10 years |

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Academy's termination policy. The Academy records a liability for accumulated unused sick leave for employees with at least five years of current service for all positions (including certified and non-certified staff).

Net Position

Net Position represents the difference between total assets and total liabilities. 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 improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the financial statements.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. These revenues consist of certain intergovernmental revenues. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

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 - CASH DEPOSITS

At June 30, 2016, the carrying amount of all Sciotoville Elementary Academy deposits was \$568,915 and the bank balance was \$581,214. Based on the criteria described in GASB Statement 40, "*Deposit and Investments Risk Disclosure*," as of June 30, 2016, none of the bank balance was exposed to custodial risk as discussed below, as the entire bank balance was either covered by Federal Deposit Insurance Corporation or was collateralized.

Custodial credit risk is the risk that, in the event of a bank failure, the Sciotoville Elementary Academy will not be able to recover deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Sciotoville Elementary Academy.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consist of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|-------------------------------------|-----------------|
| Title I Grant | \$52,679 |
| Improving Teacher Quality Grant | 14,892 |
| Special Education Grant | 25,233 |
| Foundation Adjustment | 5,544 |
| Total Intergovernmental Receivables | <u>\$98,348</u> |

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2016, was as follows:

| | <u>Balance</u> <u>6/30/15</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>6/30/16</u> |
|-----------------------------------|----------------------------------|-------------------|------------------|----------------------------------|
| Capital Assets Being Depreciated: | | | | |
| Land Improvements | \$4,272 | \$0 | \$0 | \$4,272 |
| Buildings and Improvements | 208,238 | 0 | 0 | 208,238 |
| Furniture, Fixtures and Equipment | 315,096 | 0 | 0 | 315,096 |
| Total Capital Assets | | | | |
| Being Depreciated | <u>527,606</u> | <u>0</u> | <u>0</u> | <u>527,606</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (1,353) | (214) | 0 | (1,567) |
| Buildings and Improvements | (28,446) | (4,165) | 0 | (32,611) |
| Furniture, Fixtures and Equipment | (231,537) | (24,397) | 0 | (255,934) |
| Total Accumulated Depreciation | <u>(261,336)</u> | <u>(28,776)</u> | <u>0</u> | <u>(290,112)</u> |
| Capital Assets, Net | <u>\$266,270</u> | <u>(\$28,776)</u> | <u>\$0</u> | <u>\$237,494</u> |

The Academy's total capital assets reported above include \$130,892 in fully depreciated assets.

NOTE 6 - RISK MANAGEMENT

Property and Liability

The Academy 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 2016, the Academy contracted with Wright Specialty/Catlin Insurance Company.

Settled claims have not exceeded the commercial coverage in any of the past three years. There has been no significant reduction in insurance coverage from last fiscal year.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 6 - RISK MANAGEMENT (Continued)

Workers' Compensation

The Academy pays the State Workers' 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.

Health Care Benefits

The Academy participates in the Optimal Health Initiatives Consortium (the "Consortium"), a public entity shared risk pool (Note 15), consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Academy's behalf.

NOTE 7 - 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 Academy'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 Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including pension.

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

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$19,133 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

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

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

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

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

The Academy's contractually required contribution to STRS was \$59,828 for fiscal year 2016. Of this amount \$8,868 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|---------------------|--------------|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.00425000% | 0.00572068% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | <u>0.00501270%</u> | <u>0.00489482%</u> | |
| Change in Proportionate Share | <u>0.00076270%</u> | <u>-0.00082586%</u> | |
| Proportionate Share of the Net | | | |
| Pension Liability | \$286,029 | \$1,352,787 | \$1,638,816 |
| Pension Expense | \$29,216 | \$13,795 | \$43,011 |

At June 30, 2016, the Academy 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 | \$4,605 | \$61,670 | \$66,275 |
| Changes in Proportionate Share and difference between Academy contributions and proportionate share of contributions | 34,698 | 0 | 34,698 |
| Academy contributions subsequent to the measurement date | <u>19,133</u> | <u>59,828</u> | <u>78,961</u> |
| Total Deferred Outflows of Resources | <u>\$58,436</u> | <u>\$121,498</u> | <u>\$179,934</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$9,478 | \$97,291 | \$106,769 |
| Changes in Proportionate Share and Difference between Academy contributions and proportionate share of contributions | <u>0</u> | <u>190,882</u> | <u>190,882</u> |
| Total Deferred Inflows of Resources | <u>\$9,478</u> | <u>\$288,173</u> | <u>\$297,651</u> |

\$78,961 reported as deferred outflows of resources related to pension resulting from the Academy's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-----------------|--------------------|--------------------|
| 2017 | \$7,644 | (\$69,675) | (\$62,031) |
| 2018 | 7,644 | (69,675) | (62,031) |
| 2019 | 7,622 | (69,675) | (62,053) |
| 2020 | <u>6,915</u> | <u>(17,478)</u> | <u>(10,563)</u> |
| Total | <u>\$29,825</u> | <u>(\$226,503)</u> | <u>(\$196,678)</u> |

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

The most recent experience study was completed June 30, 2010.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|----------------------------|---|
| Cash | 1.00 % | 0.00 % |
| US Stocks | 22.50 | 5.00 |
| Non-US Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | <u>15.00</u> | 7.50 |
| Total | <u><u>100.00 %</u></u> | |

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$396,620 | \$286,029 | \$192,903 |

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops best estimates 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>10 Year Expected Nominal Rate of Return *</u> |
|----------------------|--------------------------|--|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | <u>100.00 %</u> | |

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$1,879,121 | \$1,352,787 | \$907,690 |

NOTE 8 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Academy's surcharge obligation was \$2,922.

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$9,507, and \$2,319, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$6,284, respectively. The full amount has been contributed for 2016, 2015, and 2014.

NOTE 9 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation benefits are derived from policies and procedures approved by the Board of Directors. Non-certified employees earn 10 to 20 days of vacation per fiscal year, depending upon their length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment up to a maximum payment of 50 days. Teachers do not earn vacation.

Teachers, administrators, and non-certified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 215 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation for those employees with five years of continuous service and who apply and qualify for retirement under SERS or STRS Ohio.

Insurance Benefits

The Academy is a wholly vested member of the Scioto Health Plan under Optimal Health Initiatives Consortium (See Note 15). The Academy provides life insurance to its employees through metropolitan Education Council (MEC). The Academy also provides health care and dental coverage for its employees with Medical Mutual of Ohio through the Optimal Health Initiatives Consortium, and vision benefits through Vision Service Plan.

Deferred Compensation

Academy employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 10 - LONG-TERM OBLIGATIONS

| | Amounts Outstanding | | | Amounts Outstanding |
|-----------------------------|------------------------|-----------------|-----------------|------------------------|
| | 6/30/15 | Additions | Deductions | 6/30/16 |
| Net Pension Liability: | | | | |
| STRS | \$1,391,468 | \$0 | \$38,681 | \$1,352,787 |
| SERS | 215,090 | 70,939 | 0 | 286,029 |
| Total Long-Term Obligations | <u>\$1,606,558</u> | <u>\$70,939</u> | <u>\$38,681</u> | <u>\$1,638,816</u> |

The School pays obligations relating to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability (See Note 7).

NOTE 11 - LEASES - LEASEE DISCLOSURE

The Academy leases land and a gymnasium from the Sciotoville Christian Church under an operating lease. Operating lease payments are reported as operating expenses on the financial statements. Total operating lease payments in fiscal year 2016 were \$9,000. The Academy is obligated under the lease agreement to pay \$9,000 in fiscal year 2017.

NOTE 12 - CONTINGENCIES

Grants

The Academy 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2016.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, community school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year-end. As of the date of this report, the fiscal year 2016 review revealed that the Academy was underpaid by \$5,544. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either an additional receivable to or liability of the Academy.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2016

NOTE 12 – CONTINGENCIES (Continued)

Litigation

The Academy is not party to any legal proceedings as of June 30, 2016.

NOTE 13 – RELATED PARTY TRANSACTIONS

During fiscal year 2016, the Sciotoville Elementary Academy paid \$158,381 to the Sciotoville Community School for shared services which include superintendent, curriculum director, assistant treasurer, student service coordinator, and nurse, music and physical education teachers. As indicated in Note 1, the Sciotoville Elementary Academy is considered a component unit of the Sciotoville Community School.

NOTE 14 – FINANCIAL SERVICES

On August 10, 2015 the Board of Directors approved an agreement with the South Central Ohio Educational Service Center to provide full financial services for fiscal year 2016. The agreement stipulated that the Educational Service Center was responsible to fully initiate and conduct all requirements of the Treasurer's office. These services were provided at a cost of \$19,500 for fiscal year 2016.

NOTE 15 – PUBLIC ENTITY SHARED RISK POOL

Optimal Health Initiatives Consortium

The Academy is a member of the Optimal Health Initiatives Consortium (the "Consortium"), a public entity shared risk pool, consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. The overall objective of the Consortium is to enable its members to purchase employee benefits and related products and services using the Consortium's economies of scale to create cost-savings. The Council's business and affairs are managed by an Executive Board of Trustees, consisting of the chairperson of each division's board of trustees and the chairperson of the Butler Health Plan. The participants pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the fiscal agent, Jennifer Jostworth, CoWorth Financial Services at 10999 Reed Hartman Highway, Suite 304-E, Cincinnati, Ohio 45242.

SCIOTOVILLE ELEMENTARY ACADEMY

Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

NOTE 16 – JOINTLY GOVERNED ORGANIZATION

South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG)

The Academy is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a council of governments. SCOCARCoG is an association of public school districts within the boundaries of Pickaway, Gallia, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers. The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting, and designating management. Each School District's degree of control is limited to its representation on the Board.

During fiscal year 2016, SCOCARCoG entered into a merger agreement with Metropolitan Educational Technology Association ("META"). Pursuant to an addendum to the agreement, certain liabilities will remain the sole responsibility of SCOCARCoG, and once these remaining liabilities are satisfied, SCOCARCoG will be dissolved and the member districts will become members of META. SCOCARCoG entered into a subcontract agreement with META to provide services to SCOCARCoG, and on behalf of SCOCARCoG, to the member districts. Consistent with the merger agreement and updated bylaws, SCOCARCoG is currently governed by a four person executive governing board. The Academy paid SCOCARCoG \$18,630 for services provided during the fiscal year.

NOTE 17 – SUBSEQUENT EVENT

An application has been made for the Academy to combine with the Sciotoville Community School with the intent to begin July 1, 2017. As of the date of this report, the combination is in the application stage and a final decision has not been made.

SCIOTOVILLE ELEMENTARY ACADEMY
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
*Last Three Fiscal Years (1) **

| | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| School's Proportion of the Net Pension Liability | 0.00501270% | 0.00425000% | 0.00425000% |
| School's Proportionate Share of the Net Pension Liability | \$286,029 | \$215,090 | \$252,734 |
| School's Covered-Employee Payroll | \$160,707 | \$117,168 | \$128,382 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 177.98% | 183.57% | 196.86% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.16% | 71.70% | 65.52% |

(1) Information prior to 2014 is not available.

* Amounts presented for each fiscal year were determined as of the Academy's measurement date which is prior fiscal year end.

SCIOTOVILLE ELEMENTARY ACADEMY
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
*Last Three Fiscal Years (1) **

| | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| School's Proportion of the Net Pension Liability | 0.00489482% | 0.00572068% | 0.00572068% |
| School's Proportionate Share of the Net Pension Liability | \$1,352,787 | \$1,391,468 | \$1,657,507 |
| School's Covered-Employee Payroll | \$500,029 | \$581,877 | \$537,823 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 270.54% | 239.13% | 308.19% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.10% | 74.70% | 69.30% |

(1) Information prior to 2014 is not available.

* Amounts presented for each fiscal year were determined as of the Academy's measurement date which is prior fiscal year end.

SCIOTOVILLE ELEMENTARY ACADEMY

*Required Supplementary Information
Schedule of the Academy's Contributions
School Employees Retirement System of Ohio
Last Eight Fiscal Years (1)*

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|
| Contractually Required Contribution | \$19,133 | \$21,181 | \$16,239 | \$17,768 | \$17,229 | \$14,015 | \$14,445 | \$8,353 |
| Contributions in Relation to the Contractually Required Contribution | <u>(19,133)</u> | <u>(21,181)</u> | <u>(16,239)</u> | <u>(17,768)</u> | <u>(17,229)</u> | <u>(14,015)</u> | <u>(14,445)</u> | <u>(8,353)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> |
| School Covered-Employee Payroll | \$136,664 | \$160,707 | \$117,168 | \$128,382 | \$128,094 | \$111,499 | \$106,682 | \$84,884 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% | 13.54% | 9.84% |

(1) The Academy did not begin operations until fiscal year 2009.

SCIOTOVILLE ELEMENTARY ACADEMY

*Required Supplementary Information
Schedule of the Academy's Contributions
State Teacher's Retirement System of Ohio
Last Eight Fiscal Years (1)*

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually Required Contribution | \$59,828 | \$70,004 | \$75,644 | \$69,917 | \$70,569 | \$59,878 | \$67,603 | \$32,806 |
| Contributions in Relation to the Contractually Required Contribution | <u>(59,828)</u> | <u>(70,004)</u> | <u>(75,644)</u> | <u>(69,917)</u> | <u>(70,569)</u> | <u>(59,878)</u> | <u>(67,603)</u> | <u>(32,806)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> |
| School Covered-Employee Payroll | \$427,343 | \$500,029 | \$581,877 | \$537,823 | \$542,838 | \$460,600 | \$520,023 | \$252,354 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

(1) The Academy did not begin operations until fiscal year 2009.



Dave Yost • Auditor of State

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

Sciotoville Elementary Academy
Scioto County
224 Marshall Avenue
Sciotoville, Ohio 45662

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Sciotoville Elementary Academy, Scioto County, Ohio (the Academy), a component unit of the Sciotoville Community School, Scioto County, Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 28, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy'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 Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 the 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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2017



Dave Yost • Auditor of State

SCIOTOVILLE ELEMENTARY ACADEMY

SCIOTO 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 13, 2017**