



Rea & associates *a brighter way*

Southside Academy Mahoning County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Board of Directors
Southside Academy
1833 Market Street
Youngstown, Ohio 44507

We have reviewed the *Independent Auditor's Report* of the Southside Academy, Mahoning County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 6, 2017

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**SOUTHSIDE ACADEMY
MAHONING COUNTY**

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December 27, 2016

To the Board of Directors
Southside Academy
Mahoning County, Ohio
1833 Market Street
Youngstown, Ohio 44507

Independent Auditor's Report

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of School Contributions* on pages 4-8, 29-30, and 31-34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

Financial Highlights

- In total, net position decreased \$31,402, which represents a decrease of 1.3 percent from 2015. The decrease was primarily due to the decrease in state basic aid offset by an increase in grant receivables.
- Total assets increased \$87,194, which represents a 34.6 percent increase from 2015. This decrease is primarily due to the increase in federal grant funding receivable.
- Liabilities increased \$31,009, which represents a 1.3 percent increase from 2015. This increase is primarily due an increase in accounts payable and purchased services: accrued wages offset by a decrease in net pension liability.
- Deferred outflows of resources increased \$57,454, which represents a 31.0 percent change from 2015. This change represents contractually required amounts due to GASB 68.
- Deferred inflows of resources increased \$145,041, which represents a 33.6 percent change from 2015. This change results from GASB 68.

During 2015, the School adopted GASB Statement 68, Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27, which significantly revises accounting for pension costs and liabilities. 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 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.

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

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

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights (continued)

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

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

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

Using this Financial Report

This report consists of three parts, the Required Supplementary Information, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Statement of Net Position

The statement of net position answers the question of how well the School performed financially during 2016. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's net position for fiscal years 2016 and 2015.

(Table 1)

Statement of Net Position

	2016	2015
Assets		
Current Assets	\$ 307,533	\$ 239,985
Capital Assets, Net	31,847	12,201
Total Assets	339,380	252,186
Deferred Outflows of Resources		
Pension System	242,885	185,431
Liabilities		
Current Liabilities	199,480	28,702
Long Term Liability	2,248,493	2,388,262
Total Liabilities	2,447,973	2,416,964
Deferred Inflows of Resources		
Pension System	576,605	431,564
Net Position		
Investment in Capital Assets	31,847	12,201
Unrestricted	(2,474,160)	(2,423,112)
Total Net Position	\$ (2,442,313)	\$ (2,410,911)

Total assets increased \$87,194. This increase corresponds to the increase in the School's federal grant funding receivable. Deferred outflows of resources increased \$57,454. Total liabilities increased by \$31,009. This decrease is primarily the result of the increase in accounts payable and purchased services: accrued wages and benefits offset by decreases in net pension liability. Deferred inflows of resources increased \$145,041. The changes in deferred outflows and inflows of resources were impacted by the implementation of GASB 68. The School operates under a management agreement with The Educational Empowerment Group, LLC (see notes to the financial statements, note 8).

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Statement of Revenues, Expenses, and Changes in Net Position

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

(Table 2)

Changes in Net Position

	2016	2015
Operating revenue		
State aid	\$ 1,282,190	\$ 1,620,070
Total operating revenue	1,282,190	1,620,070
Non-operating revenue		
Grants	746,436	388,713
Miscellaneous	36,210	9,337
Total revenues	2,064,836	2,018,120
Operating expenses		
Benefits	75,697	-
Purchased services	1,925,685	2,017,122
Materials and supplies	57,135	-
Depreciation	10,390	31,319
Other expenses	27,331	-
Total expenses	2,096,238	2,048,441
Change in net position	\$ (31,402)	\$ (30,321)

The reason for the decrease in overall revenues from 2015 was primarily due to the decrease in FTE, thereby reducing grant aid foundation income. The School's most significant expenses, "Purchased services" are a result of the management agreement in place between the School and EEG, LLC. Effective July 1, 2015, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for 3 years and will renew for additional, successive three (3) year terms. The agreement provides that specific percentages of the revenues received by the School will be paid to EEG, LLC to fund operations (see notes to the financial statements, note 8). 2015 classification of expenses have been changed to be comparable to 2016 based on the structure of the new management agreement.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Capital Assets

At the end of fiscal year 2016, the School had \$31,847 in equipment. Table 3 shows the balance for fiscal years 2016 and 2015.

(Table 3)

Capital Assets (Net of Depreciation)

	<u>2016</u>	<u>2015</u>
Equipment	\$ 31,847	\$ 12,201
Totals	<u>\$ 31,847</u>	<u>\$ 12,201</u>

For more information on capital assets, see note 6 in the notes to the financial statements.

Current Financial Issues

Southside Academy received revenue for 146 students in 2016. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$8,782 in fiscal year 2016. The School receives additional revenues from grant subsidies.

Although there is a possibility that state aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change.

Contacting the School's Financial Management

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

**SOUTHSIDE ACADEMY
MAHONING COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets

Cash & cash equivalents	\$ 112,801
Pension obligation receivable	21,179
Prepaid insurance	1,018
State aid receivable	50,268
Federal grant funding receivable	122,267
	<hr/>
Total current assets	307,533

Noncurrent assets

Capital assets, net	31,847
	<hr/>

Total assets

339,380

DEFERRED OUTFLOWS OF RESOURCES

Pension system	242,885
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LIABILITIES

Current liabilities

Accounts payable	64,405
Purchased services: Accrued wages and benefits	135,075
	<hr/>
Total current liabilities	199,480

Long term liabilities

Net pension liability	2,248,493
	<hr/>

Total liabilities

2,447,973

DEFERRED INFLOWS OF RESOURCES

Pension system	576,605
	<hr/>

NET POSITION

Invested in capital assets	31,847
Unrestricted net position	(2,474,160)
	<hr/>
Total net position	\$ (2,442,313)

The accompanying notes to the financial statements are an integral part of this statement.

**SOUTHSIDE ACADEMY
MAHONING COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES

State basic aid	\$ 1,248,378
Facilities aid	21,926
3rd grade reading bonus	3,250
Casino revenue	8,636
	<hr/>
Total operating revenues	1,282,190

OPERATING EXPENSES

Benefits	75,697
Purchased services	1,925,685
Materials and supplies	57,135
Depreciation	10,390
Other expenses	27,331
	<hr/>
Total operating expenses	2,096,238
Operating loss	(814,048)

NON-OPERATING REVENUES

Federal grants	743,814
State grants	2,622
Miscellaneous revenue	36,210
	<hr/>
Total non-operating revenues	782,646
Change in net position	(31,402)
Net position, July 1, 2015	(2,410,911)
	<hr/>
Net position, June 30, 2016	\$ (2,442,313)

The accompanying notes to the financial statements are an integral part of this statement.

**SOUTHSIDE ACADEMY
MAHONING COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from state aid	\$ 1,232,812
Cash payments to suppliers for goods and services	<u>(1,989,449)</u>
Net cash used for operating activities	<u>(756,637)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Cash Payments for Capital Acquisitions	<u>(30,036)</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant programs	636,281
Cash received from miscellaneous revenue	<u>36,210</u>
Net cash received from noncapital financing activities	<u>672,491</u>
Net decrease in cash and cash equivalents	(114,182)
Cash and cash equivalents at beginning of year	<u>226,983</u>
Cash and cash equivalents at end of year	<u>\$ 112,801</u>

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

Operating loss	<u>\$ (814,048)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	10,390
Changes in assets, liabilities, and deferred outflows/inflows of resources:	
Continuing fees receivable	890
Pension obligation receivable	(21,179)
State aid receivable	(50,268)
Prepaid insurance	(1,018)
Pension deferred outflows	(57,454)
Accounts payable	59,964
Accrued wages and benefits	135,075
Grants funding payable	(12,112)
Net pension liability	(139,769)
Pension deferred inflows	145,041
Continuing fees payable	<u>(12,149)</u>
Total adjustments	<u>57,411</u>
Net cash used for operating activities	<u>\$ (756,637)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Southside Academy (the School) is a federal tax exempt 501(c)(3) and state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Educational Empowerment Group, LLC (EEG, LLC) for most of its functions (see note 8).

The School signed a contract with Ohio Council of Community Schools (OCCS) (Sponsor) to operate for a period from July 1, 2015 through June 30, 2020. The School operates under a self-appointing, six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by EEG, LLC. The facility is staffed with teaching personnel employed by EEG, LLC, who provide services to 146 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's 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.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources as well as all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in Net Position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2016. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

All cash received by the School is maintained in a demand deposit account.

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, facilities aid, 3rd grade reading bonus and casino tax distributions, which are reflected under "Operating revenues" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2016 school year totaled \$2,028,626.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

As of June 30, 2016, the School's capital assets had a net book value of \$31,847 (see note 6). Depreciation is computed by the straight-line method over five years for equipment.

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with EEG, LLC (see note 8).

G. Use of Estimates

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

H. Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net Position consists of capital assets, net of accumulated depreciation and unrestricted.

I. Operating Revenues and Expenses

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

J. 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.

K. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements of the 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) until then. For the School, deferred outflows of resources are reported on the statement of net position for deferred charges on refunding and for pension. The deferred outflows of resources related to pension are explained in note 11.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred Outflows and Deferred Inflows of Resources (Continued)

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 applied to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension. These amounts have been recorded as a deferred inflow on the statement of net position. Deferred inflows of resources related to pension are reported on the statement of net position. (See note 11)

3. CHANGE IN ACCOUNTING PRINCIPLES

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

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

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

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

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

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

4. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

As of June 30, 2016, the carrying amount of all School deposits was \$112,801. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, none of the School's bank balance of \$112,801 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

B. Investments

As of June 30, 2016, the School had no investments.

5. GRANTS FUNDING RECEIVABLE

The School has recorded "Grants funding receivable" in the amount of \$122,267 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2016.

6. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2016, the School's capital assets consisted of the following:

	Balance <u>6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2016</u>
Capital Assets Being Depreciated				
Computers and Software	\$ 102,209	\$ -	\$ -	\$ 102,209
Equipment	<u>36,602</u>	<u>30,036</u>	<u>-</u>	<u>66,638</u>
Total Capital Assets Being Depreciated	<u>138,811</u>	<u>30,036</u>	<u>-</u>	<u>168,847</u>
 Less Accumulated Depreciation				
Computers and Software	(102,209)	-	-	(102,209)
Equipment	<u>(24,401)</u>	<u>(10,390)</u>	<u>-</u>	<u>(34,791)</u>
Total Accumulated Depreciation	<u>(126,610)</u>	<u>(10,390)</u>	<u>-</u>	<u>(137,000)</u>
 Total Capital Assets Being Depreciated, BYh				
..	<u>\$ 12,201</u>	<u>\$ 19,646</u>	<u>\$ -</u>	<u>\$ 31,847</u>

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

7. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with EEG, LLC, EEG, LLC has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see note 8). There have been zero claims the past four years, nor has there been a reduction in insurance coverage from the prior year.

Director and Officer - Coverage has been purchased by the School with a \$2,000,000 aggregate limit and a \$5,000, \$15,000, or \$50,000 deductible, depending on the claim.

8. AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP, LLC

Effective July 1, 2015, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for 3 years and will renew for additional, successive three (3) year terms unless one party notifies the other party no later than six months prior to the term expiration date of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to EEG, LLC. EEG, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay EEG, LLC a monthly continuing fee of 15 percent of the School's "Qualified gross revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions. The continuing fee is paid to EEG, LLC based on the qualified gross revenues.

The School had purchased services for the year ended June 30, 2016, to EEG, LLC, of \$1,291,957 and a payable of \$135,075 LLC. EEG, LLC will be responsible for procuring the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance which are then invoiced to the school or reimbursed to EEG, LLC.

9. SPONSORSHIP FEES

Under Paragraph D(4) of the sponsor contract with OCCS, it states that the School "...shall pay to the Sponsor, the amount of two percent (2%) of all state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Sponsor pursuant to this contract." Such fees are paid to the OCCS monthly. As indicated on the statement of revenues, expenses, and changes in Net Position, the School incurred \$24,864 in sponsorship fees to OCCS.

**SOUTHSIDE ACADEMY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

10. PURCHASED SERVICES

For the year ended June 30, 2016, purchased service expenses were as follows:

Purchased Services	Amount
Direct Expenses:	
Personnel services	\$ 1,109,004
Professional services	479,683
Building services	185,455
Food service	100,754
Sponsor services	24,864
Other	25,925
Total	\$ 1,925,685

11. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

A. Net Pension Liability (continued)

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 purchased services: accrued wages and benefits on the accrual basis of accounting.

B. Plan Description – School Employees Retirement System (SERS)

Plan Description – School 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.

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

The School's contractually required contribution to SERS was \$60,804 for fiscal year 2016.

**SOUTHSIDE ACADEMY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

C. Plan Description – State Teachers Retirement System (STRS)

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

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

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

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

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

**SOUTHSIDE ACADEMY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

C. Plan Description – State Teachers Retirement System (STRS)(continued)

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$88,254 for fiscal year 2016.

D. 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 School's proportion of the net pension liability was based on the School'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$390,748	\$1,857,745	\$2,248,493
Proportion of the Net Pension Liability	0.006848%	0.0067219%	
Pension Expense	\$42,587	\$54,289	\$96,876

**SOUTHSIDE ACADEMY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

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

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$6,965	\$86,862	\$93,827
School District contributions subsequent to the measurement date	60,804	88,254	149,058
Total Deferred Outflows of Resources	\$67,769	\$175,116	\$242,885
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$25,847	\$175,331	\$201,178
Changes in proportion and differences	92,673	282,754	375,427
Total Deferred Inflows of Resources	\$118,520	\$458,085	\$576,605

\$149,058 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	\$ (114,024)	\$ (38,382)	\$ (152,406)
2018	(114,024)	(38,382)	(152,406)
2019	(114,023)	(38,421)	(152,444)
2020	(29,154)	3,630	(25,524)
	\$ (371,225)	\$ (111,555)	\$ (482,780)

E. 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.

**SOUTHSIDE ACADEMY
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**NOTES TO THE FINANCIAL STATEMENTS
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(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 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.

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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	15.00	7.50
Total	<u>100.00 %</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 School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School proportionate share of the net pension liability	\$541,827	\$390,748	\$263,527

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

**SOUTHSIDE ACADEMY
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(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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

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

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates 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	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>	

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.

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**NOTES TO THE FINANCIAL STATEMENTS
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(Continued)**

11. DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School proportionate share of the net pension liability	\$2,580,548	\$1,857,745	\$1,246,507

12. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated 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 the 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.

**SOUTHSIDE ACADEMY
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)**

12. POSTEMPLOYMENT BENEFITS (continued)

A. School Employee Retirement System (continued)

The School's contributions for healthcare (including surcharge) for the fiscal year ending June 30, 2016, 2015, and 2014 was \$450, \$2,183, and \$4,083, respectively.

B. State Teachers Retirement System

Plan Description – The School participates in the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) 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 may be obtained by visiting www.strsoh.org or by calling (888) 227-787

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$7,117, respectively; 100 percent has been contributed for fiscal years 2016, 2015, and 2014.

13. CONTINGENCIES

Grants

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

Enrollment FTE

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional 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 school, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 and 2015 Foundation funding for the school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

**SOUTHSIDE ACADEMY
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(Continued)**

14. STATE AID RECEIVABLE

A state aid receivable was recorded at June 30, 2016 for \$50,268. This amount is to account for foundation adjustments occurring in fiscal year 2017 that relate to fiscal year 2016.

15. OPERATING LEASE

Effective July 1, 2015, the school entered into a lease agreement with St. Patrick's Church for a term of 60 months for \$2,000 per month for the first twelve months to increase to \$4,000 per month for the remainder of the lease agreement. For fiscal year 2016 the total paid is \$24,000.

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

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

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.006848%	0.008942%	0.008942%
School's Proportionate Share of the Net Pension Liability	\$ 390,748	\$ 452,550	\$ 531,752
School's Covered-Employee Payroll	\$ 473,695	\$ 209,466	\$ 338,194
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	82.49%	216.05%	157.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

*Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Three Fiscal Years*

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.00672193%	0.007958%	0.007958%
School's Proportionate Share of the Net Pension Liability	\$ 1,857,745	\$ 1,935,712	\$ 2,305,808
School's Covered-Employee Payroll	\$ 717,929	\$ 766,492	\$ 1,064,315
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	258.76%	252.54%	216.65%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

*Required Supplementary Information
Schedule of Schools Contributions
School Employee Retirement System of Ohio
Last Six Fiscal Years (1)*

	2016	2015	2014	2013
Contractually Required Contribution	\$ 60,804	\$ 62,433	\$ 29,032	\$ 46,806
Contributions in Relation to the Contractually Required Contribution	(60,804)	(62,433)	(29,032)	(46,806)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
School Covered-Employee Payroll	\$ 434,314	\$ 473,695	\$ 209,466	\$ 338,194
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

(1) Information prior to 2011 is not available

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

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

<u>2012</u>	<u>2011</u>
\$ 51,406	\$ 51,406
<u>(51,406)</u>	<u>(51,406)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 382,201	\$ 408,958
13.45%	12.57%

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

*Required Supplementary Information
Schedule of the School's Contributions
State Teachers Retirement System of Ohio
Last Six Fiscal Years (1)*

	2016	2015	2014	2013
Contractually Required Contribution	\$ 88,254	\$ 100,510	\$ 99,644	\$ 138,361
Contributions in Relation to the Contractually Required Contribution	(88,254)	(100,510)	(99,644)	(138,361)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
School Covered-Employee Payroll	\$ 630,386	\$ 717,929	\$ 766,492	\$ 1,064,315
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2011 is not available

**SOUTHSIDE ACADEMY
MAHONING COUNTY**

*Required Supplementary Information
Schedule of the School's Contributions
State Teachers Retirement System of Ohio
Last Six Fiscal Years (1)*

<u>2012</u>	<u>2011</u>
\$ 154,671	\$ 154,671
<u>(154,671)</u>	<u>(154,671)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 1,189,777	\$ 1,189,777
13.00%	13.00%

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December 27, 2016

To the Board of Directors
Southside Academy
Mahoning County, Ohio
1833 Market Street
Youngstown, Ohio 44507

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Southside Academy, Mahoning County, Ohio (the "School") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 27, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

SOUTHSIDE ACADEMY

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 21, 2017**