



Dave Yost • Auditor of State

**FOXFIRE HIGH SCHOOL
MUSKINGUM COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Foxfire High School
Muskingum County
2805 Pinkerton Road
Zanesville, Ohio 43701

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Foxfire High School, Muskingum County, Ohio (the High School), a component unit of the Maysville Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the High School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foxfire High School, Muskingum County, Ohio, as of June 30, 2017, 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 February 20, 2018, on our consideration of the High School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the High School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

February 20, 2018

Foxfire High School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of the Foxfire High School's (High School) financial performance provides an overall review of the High School's financial activities for the fiscal year ended June 30, 2017. Readers should also review the basic financial statements and notes to enhance their understanding of the High School's financial performance.

Highlights

The High School opened for its first year of operation in fiscal year 2004 for high school age students and above who have dropped out or are at risk of dropping out of school. During fiscal year 2017, the High School began to serve students in grades four through twelve. This change was due to a change made by the Ohio Department of Education that now allows fourth through eighth grades to be served through a drop-out, recovery, and prevention school. During fiscal year 2017, the High School provided services to 333 full-time students.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the High School did financially during fiscal year 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the High School's net position and changes in position. The change in net position is important because it tells the reader whether the financial position of the High School has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

All of the High School's activities are reported in a single enterprise fund.

Table 1 provides a summary of the High School's net position for 2017 compared to 2016:

Foxfire High School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 1 - Net Position

	2017	2016	Change
<u>Assets:</u>			
Current and Other Assets	\$1,662,603	\$1,063,733	\$598,870
Capital Assets	172,864	118,505	54,359
<i>Total Assets</i>	<u>1,835,467</u>	<u>1,182,238</u>	<u>653,229</u>
<u>Deferred Outflows of Resources:</u>			
Pension	795,422	271,609	523,813
<u>Liabilities:</u>			
Current and Other Liabilities	571,400	235,007	336,393
<u>Long-Term Liabilities:</u>			
Net Pension Liability	3,302,377	2,584,798	717,579
Other Amounts Due in More than One Year	57,031	50,420	6,611
<i>Total Liabilities</i>	<u>3,930,808</u>	<u>2,870,225</u>	<u>1,060,583</u>
<u>Deferred Inflows of Resources:</u>			
Pension	57,761	234,906	(177,145)
<u>Net Position:</u>			
Net Investment in Capital Assets	172,864	118,505	54,359
Unrestricted (Deficits)	(1,530,544)	(1,769,789)	239,245
<i>Total Net Position</i>	<u>(\$1,357,680)</u>	<u>(\$1,651,284)</u>	<u>\$293,604</u>

The net pension liability (NPL) is the largest single liability reported by the High School at June 30, 2017 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 High 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 governmental 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.

GASB 68, requires the net pension liability to equal the High 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

Foxfire High School
Management's Discussion and Analysis
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Unaudited

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 High 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 High 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.

Total assets increased by \$653,229 during fiscal year 2017. This increase is mainly attributable to an increase in cash and cash equivalents in the amount of \$507,552, an increase in intergovernmental receivables in the amount of \$87,866, an increase in prepaids in the amount of \$1,623, increase in inventories on hand in the amount of \$1,829, and an increase in capital assets in the amount of \$54,359. The increase in cash and cash equivalents is primarily due to an increase in State foundation payments due to an increase in students as a result of the High School adding grades four through eight. Student levels increased from 234 in fiscal year 2016 to 333 in fiscal year 2017. Fiscal year 2017, intergovernmental receivables increased due to a new summer school work program funded through the Muskingum County Workforce Investment Act Ohio Means Jobs grant funding. The High School students learn various on the job skills at local businesses and are paid a wage for hours worked during the summer months. The High School administers the program and receives reimbursements from the Muskingum County Auditor. Capital assets increased as a result of current year purchases of equipment exceeding current year depreciation.

Total liabilities increased \$1,060,583 during fiscal year 2017. The main reason for this increase is attributed to the increase in the net pension liability in the amount of \$717,579. Other amounts due in more than one year increased in the amount of \$6,611 due to an increase in compensated absences which was the result of an increase in staff from 23 in fiscal year 2016 to 39 in fiscal year 2017 due to the addition of grades four through eight in fiscal year 2017. The \$336,393 increase in current and other liabilities is due primarily to increases in accounts and contracts payables, accrued wages and benefits, intergovernmental payable, and vacation benefit payable resulting from the increase in staffing levels and student enrollment.

Foxfire High School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2 reflects the changes in net position for fiscal year ended June 30, 2017 and comparisons to fiscal year 2016.

Table 2 - Change in Net Position

	2017	2016	Change
<u>Operating Revenues:</u>			
Foundation	\$3,422,180	\$2,174,932	\$1,247,248
Charges for Services	310,404	44,651	265,753
<i>Total Operating Revenues</i>	<u>3,732,584</u>	<u>2,219,583</u>	<u>1,513,001</u>
<u>Non-Operating Revenues:</u>			
State and Federal Grants	495,125	515,319	(20,194)
Interest	4,999	2,528	2,471
Other Non-Operating Revenue	7,057	8,316	(1,259)
<i>Total Non-Operating Revenues</i>	<u>507,181</u>	<u>526,163</u>	<u>(18,982)</u>
<i>Total Revenues</i>	<u>4,239,765</u>	<u>2,745,746</u>	<u>1,494,019</u>
<u>Operating Expenses:</u>			
Salaries	1,998,124	1,162,892	835,232
Fringe Benefits	595,686	350,450	245,236
Purchased Services	1,057,408	733,525	323,883
Materials and Supplies	194,460	135,096	59,364
Depreciation	18,348	14,899	3,449
Other Operating Expenses	82,135	6,901	75,234
<i>Total Operating Expenses</i>	<u>3,946,161</u>	<u>2,403,763</u>	<u>1,542,398</u>
<i>Change in Net Position</i>	293,604	341,983	(48,379)
<i>Net Position Beginning of Year</i>	<u>(1,651,284)</u>	<u>(1,993,267)</u>	341,983
<i>Net Position End of Year</i>	<u>(\$1,357,680)</u>	<u>(\$1,651,284)</u>	<u>\$293,604</u>

During fiscal year 2017, operating revenues increased in the amount of \$1,513,001. This increase is primarily due to an increase in foundation revenue in the amount of \$1,247,248 and due to the increase in student enrollment as mentioned earlier. The increase in charges for services was due mainly to the new summer work program administered by the High School as mentioned on page 5. Non-operating revenues remained fairly consistent.

During fiscal year 2017, salaries accounted for 51 percent and purchased services accounted for 27 percent of the operating expenses. Fringe benefits accounted for 15 percent, materials and supplies accounted for 5 percent, and depreciation and other operating expenses together accounted for 2 percent of operating expenses. All areas of expenses increased due to the increase of student enrollment and staffing levels as mentioned earlier.

Foxfire High School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Budgeting

The High School is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets - During fiscal year 2017, the High School had \$172,864 in capital assets. See Note 4 for additional information regarding capital assets.

Debt - The High School did not incur any debt during fiscal year 2017. The net pension liability under GASB 68 is reported as a long-term obligation that has been previously disclosed within the management's discussion and analysis. See Note 12 for more detailed information of the High School's debt.

Current Design

The High School is different than a traditional high school in that the High School is designed to operate as an open, non-discriminatory manner where students can work at their own pace to earn a high school diploma. The High School operates under the "Care Team" philosophy by joining forces with the area social agencies in an effort to increase a student's developmental assets and eliminate the barriers to academic achievement. The High School's staff meets weekly with its "Care Team" to identify the students who are struggling, determine barriers and provide supportive services to help those students overcome their problems so they can achieve success in School.

Contacting the High School's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the High School's finances and to show the High School's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Lewis Sidwell, Treasurer, Foxfire High School, 2805 Pinkerton Road, Zanesville, Ohio 43701. You may also E-mail the treasurer at lsidwell@laca.org.

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Foxfire High School
Statement of Net Position
June 30, 2017

<u>Assets:</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$1,511,618
Intergovernmental Receivable	141,474
Prepays	1,623
Inventory Held for Resale	7,080
Materials and Supplies Inventory	808
<i>Total Current Assets</i>	1,662,603
<u>Noncurrent Assets:</u>	
Nondepreciable Capital Assets	22,562
Depreciable Capital Assets, Net	150,302
<i>Total Noncurrent Assets</i>	172,864
<i>Total Assets</i>	1,835,467
<u>Deferred Outflows of Resources:</u>	
Pension	795,422
<u>Liabilities:</u>	
<u>Current Liabilities:</u>	
Accounts Payable	19,341
Contracts Payable	15,362
Accrued Wages and Benefits Payable	350,483
Intergovernmental Payable	164,749
Vacation Benefit Payable	21,465
<i>Total Current Liabilities</i>	571,400
<u>Long-Term Liabilities:</u>	
Net Pension Liability (See Note 9)	3,302,377
Other Amounts Due in More Than One Year	57,031
Total Long-Term Liabilities	3,359,408
<i>Total Liabilities</i>	3,930,808
<u>Deferred Inflows of Resources:</u>	
Pension	57,761
<u>Net Position:</u>	
Net Investment in Capital Assets	172,864
Unrestricted (Deficit)	(1,530,544)
<i>Total Net Position</i>	(\$1,357,680)

See accompanying notes to the basic financial statements

Foxfire High School
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

<u>Operating Revenues:</u>	
Foundation	\$3,422,180
Charges for Services	310,404
<i>Total Operating Revenues</i>	<u>3,732,584</u>
<u>Operating Expenses:</u>	
Salaries	1,998,124
Fringe Benefits	595,686
Purchased Services	1,057,408
Materials and Supplies	194,460
Depreciation	18,348
Other Operating Expenses	82,135
<i>Total Operating Expenses</i>	<u>3,946,161</u>
Operating Loss	<u>(213,577)</u>
<u>Non-Operating Revenues:</u>	
State and Federal Grants	495,125
Interest	4,999
Other Non-Operating Revenues	7,057
<i>Total Non-Operating Revenues</i>	<u>507,181</u>
<i>Change in Net Position</i>	293,604
<i>Net Position Beginning of Year</i>	<u>(1,651,284)</u>
<i>Net Position End of Year</i>	<u><u>(\$1,357,680)</u></u>

See accompanying notes to the basic financial statements

Foxfire High School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$3,422,180
Cash Received from Charges for Services	182,431
Cash Payments for Employee Services and Benefits	(2,339,039)
Cash Payments to Suppliers for Goods and Services	(1,246,893)
Other Operating Expenses	(6,277)
Other Non-Operating Revenues	4,456
	16,858
<i>Net Cash Provided By Operating Activities</i>	16,858

Cash Flows from Noncapital Financing Activities:

State and Federal Grants Received	537,982
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Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(52,287)
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Cash Flows from Investing Activities:

Interest on Investments	4,999
	4,999

<i>Net Increase in Cash and Cash Equivalents</i>	507,552
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<i>Cash and Cash Equivalents Beginning of Year</i>	1,004,066
	1,004,066

<i>Cash and Cash Equivalents End of Year</i>	\$1,511,618
	\$1,511,618

Reconciliation of Operating Loss to

Net Cash Provided By Operating Activities:

Operating Loss	(\$213,577)
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Adjustments to Reconcile Operating Loss

to Net Cash Provided By Operating Activities:

Depreciation	18,348
Non-Operating Revenues	4,456

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(129,267)
Increase in Prepaids	(1,623)
Increase in Inventory Held for Resale	(1,879)
Decrease in Materials and Supplies Inventory	50
Decrease in Deferred Outflows - Pension	111,089
Increase in Accounts Payable	5,805
Increase in Accrued Wages and Benefits Payable	186,889
Increase in Vacation Benefits Payable	6,908
Increase in Intergovernmental Payable	117,516
Increase in Compensated Absences Payable	6,611
Decrease in Deferred Inflows - Pension	(124,834)
Increase in Net Pension Liability	30,366
	30,366

<i>Net Cash Provided By Operating Activities</i>	\$16,858
	\$16,858

See accompanying notes to the basic financial statements

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Foxfire High School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 - Description of the School

The Foxfire High School (High School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The High School is an approved tax-exempt organization under Section 501(c)(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 High School's tax exempt status. The High School's mission is to help at-risk students meet Ohio's graduation requirements. The High School serves as a drop-out, recovery, and prevention school and focuses on ensuring that basic survival needs are met so that students can achieve success in school. The High School serves elementary, middle, high school age students and above who have dropped out or are at risk of dropping out of school. A particular emphasis is placed on assisting parents and/or pregnant students obtain a high school diploma.

The High School was created on September 3, 2003 by entering a contract with the Maysville Local School District (the Sponsor) and served students in grades nine through twelve. Beginning in fiscal year 2017, the High School began to serve students in grades four through twelve. This change in grades served was due to a change by the Ohio Department of Education which allows a drop-out, recovery, and prevention school to serve grades four through twelve. The Sponsor is responsible for evaluating the performance of the High School and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of High School with the Treasurer of the Sponsor serving as the Treasurer for the High School.

The High School operates under the direction of a five-member Board of Directors comprised of five community members recommended by the Executive Director after consulting with the Sponsor's Superintendent. All governing authority members are required to live and/or work in the Zanesville-Muskingum County community and are to represent the interest of the Muskingum County community. The Board of Directors approves High School's staff of fourteen noncertified and twenty-five certificated full time teaching personnel who provide services to 333 students. The High School is a component unit of the Sponsor. The Sponsor is able to impose its will on High School and due to their relationship with the Sponsor it would be misleading to exclude them. The Sponsor can suspend the High School's operations for any of the following reasons: 1) The High School's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The High School's failure to meet generally accepted standards of fiscal management, 3) The High School's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the High School and the students it serves. The High School uses the facilities provided by the Sponsor. When the High School began operations in 2003, the employees were considered employees of the Sponsor. Beginning January 1, 2011, the employees became employees of the High School.

The High School participates in one insurance purchasing pool, the Ohio School Benefits Cooperative. This organization is presented in Note 13 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the High School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. 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 High School's accounting policies are described below.

Foxfire High School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

A. Basis of Presentation

The High School's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The High School uses a single enterprise fund to present its financial records for the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes 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 or services.

B. Measurement Focus

The enterprise fund is accounted for using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the High School 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 reflects how the High School finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The High School'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. Revenue resulting from nonexchange transactions, in which the High School receives value without directly giving equal value in return, such as grants and entitlements, are 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 High School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the High School on a reimbursement basis. Expenses are recognized at the time they are incurred.

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 High School, deferred outflows of resources are reported on the statement of net position for pension.

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 until that time. For the High 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 9)

Foxfire High School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by High School's contract with its Sponsor. The contract between High School and its Sponsor does not prescribe an annual budget requirement in addition to preparing a five year forecast, which is updated on an annual basis.

E. Cash and Cash Equivalents

Cash received by High School is reflected as "Cash and Cash Equivalents" on the statement of net position. Investments with original maturities of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2017, the High School had no investments. The interest earnings received by High School were from an interest bearing checking account.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the period amount is recorded at the time of the purchase and an expense/expenditure is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

The High School's capital assets during fiscal year 2017 consisted of computer equipment, video equipment, signs, athletic equipment, kitchen equipment, and construction in progress. All capital assets are capitalized at cost (or estimated historical cost) 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 High School maintains a capitalization threshold of one thousand dollars. All of the High School's reported capital assets, except construction in progress, are depreciated using the straight-line method over the useful lives ranging from five to 20 years.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the High School will compensate the employees for the benefits through paid time off or some other means. The High School records a liability for vacation time when earned.

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 High School has identified as probable of receiving payment in the future.

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The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the High School's termination policy. The High School currently has three employees that it anticipates as being probable to retire.

J. Net Position

Net position represents the difference between assets and liabilities. Net position are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports no restricted net position and has no monies restricted by enabling legislation.

Net position restricted for other purposes include federal grants restricted to expenditures for specified purposes.

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

K. Operating Revenues and Expenses

The High School 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 they are earned and become measurable.

Other operating revenues are those revenues that are generated directly from the primary activity of the High School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the High School. All revenues and expenses not meeting this definition are reported as non-operating.

L. 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.

L. Estimates

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

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the High School's deposits may not be returned. The High School does not have a deposit policy for custodial credit risk.

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At June 30, 2017, the bank balance of the High School’s deposits was \$1,531,212. \$250,000 of the bank balance was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, \$1,281,212 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 – Capital Asset Note

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<i>Nondepreciable Capital Assets:</i>				
Construction in Progress	\$0	\$22,562	\$0	\$22,562
<i>Depreciable Capital Assets:</i>				
Equipment	\$178,365	\$50,145	\$0	\$228,510
Less Accumulated Depreciation	(59,860)	(18,348)	0	(78,208)
Depreciable Capital Assets, Net	118,505	31,797	0	150,302
Capital Assets, Net	\$118,505	\$54,359	\$0	\$172,864

Note 5 – Intergovernmental Receivable

Receivables at June 30, 2017, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Summer School Program	\$127,973
Title I	9,318
Bureau of Workers' Compensation Refund	2,601
E-Rate	1,294
Medicaid	288
Total	\$141,474

Note 6 – Risk Management

The High School is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. The High School maintains liability insurance through the Maysville Local School District’s policy. Employees are fully insured for health coverage through Medical Mutual and through the Guardian Life Insurance Company of America for dental and vision benefits.

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Note 7 – Related Party Transactions

The Board of Directors of the High School consists of five community members recommended by the Executive Director of the High School after consulting with Maysville Local School District’s (Sponsor) Superintendent. The High School is presented as a component unit of the Sponsor. During fiscal year 2017, \$656,508 was paid to the Sponsor for rent, utilities, transportation, and other support services provided to the High School. The High School is located in a portion of facilities previously utilized by the Sponsor. As of June 30, 2017, there were no outstanding expenses owed to the sponsor.

Note 8 – High School’s Expenses

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Other Instruction (1300 and 1900 Function Codes)	Support Services (2000 Function Codes)	Non- Instructional (3000 through 7000 Function Codes)	Total
<i>Direct expenses:</i>						
Salaries & wages (100 object codes)	\$640,934	\$264,047	\$47,303	\$714,467	\$97,763	\$1,764,514
Employees’ benefits (200 object codes)	222,366	77,790	22,367	237,154	14,848	574,525
Professional and technical services (410 object codes)	24,695	2,845	129,486	186,894	50	343,970
Property services (420 object codes)	0	0	0	26,543	3,229	29,772
Rental expenses (425 object codes)	533,040	0	0	0	0	533,040
Travel/Meeting Expense (430 object codes)	912	0	0	0	0	912
Advertising /Phone/Postage (440 object codes)	32,942	0	0	5,662	0	38,604
Utilities (450 object codes)	0	0	0	65,390	0	65,390
Transportation (480 object codes)	0	0	0	0	43,849	43,849
Other purchased services (490 object codes)	0	0	0	0	510	510
Supplies (500 object codes)	13,743	0	4,642	21,785	86,958	127,128
Equipment (640 object codes)	76,813	0	0	19,796	5,272	101,881
Other direct costs (All other object codes)	2,254	0	0	0	4,023	6,277
Total expenses	\$1,547,699	\$344,682	\$203,798	\$1,277,691	\$256,502	\$3,630,372

Expenses are shown on a cash basis.

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Note 9 – 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 High 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 High School’s obligation for this liability to annually required payments. The High School cannot control benefit terms or the manner in which pensions are financed; however, the High School does receive the benefit of employees’ services in exchange for compensation including pension.

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – High 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:

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	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 years 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 High School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The High School's contractually required contribution to SERS was \$87,606 for fiscal year 2017. Of this amount \$12,605 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – High School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee 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 26 years of service, or 31 years of service regardless of age.

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Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The High School's contractually required contribution to STRS was \$177,132 for fiscal year 2017. Of this amount \$50,346 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The High School's proportion of the net pension liability was based on the High 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:

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.01265320%	0.00674020%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.01330920%</u>	<u>0.00695565%</u>	
Change in Proportionate Share	<u>0.00065600%</u>	<u>0.00021545%</u>	
Proportionate Share of the Net			
Pension Liability	\$974,111	\$2,328,266	\$3,302,377
Pension Expense	\$116,833	\$164,526	\$281,359

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$13,138	\$94,073	\$107,211
Changes of assumptions	65,027	0	65,027
Net difference between projected and actual earnings on pension plan investments	80,350	193,309	273,659
Changes in proportionate Share and difference between High School contributions and proportionate share of contributions	39,029	45,758	84,787
High School contributions subsequent to the measurement date	<u>87,606</u>	<u>177,132</u>	<u>264,738</u>
Total Deferred Outflows of Resources	<u>\$285,150</u>	<u>\$510,272</u>	<u>\$795,422</u>
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between High School contributions and proportionate share of contributions	<u>\$0</u>	<u>\$57,761</u>	<u>\$57,761</u>

\$264,738 reported as deferred outflows of resources related to pension resulting from High School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$55,190	\$37,688	\$92,878
2019	55,133	37,688	92,821
2020	64,125	111,864	175,989
2021	<u>23,096</u>	<u>88,139</u>	<u>111,235</u>
Total	<u>\$197,544</u>	<u>\$275,379</u>	<u>\$472,923</u>

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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, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the High School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
High School's proportionate share of the net pension liability	\$1,289,662	\$974,111	\$709,981

Actuarial Assumptions - STRS

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

Inflation	2.75 percent
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, including inflation
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.

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Males' ages are set back two years through age 89 and no setback 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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected 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	100.00 %	7.61 %

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the High School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the High 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 High 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:

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
High School's proportionate share of the net pension liability	\$3,094,076	\$2,328,266	\$1,682,260

Changes between Measurement Date and Report Date

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

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. As of June 30, 2017, none of the Board of Education members elected Social Security.

Note 10 - Postemployment Benefits

A. School Employees Retirement System (SERS)

Health Care Plan Description - The High 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. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service credit was earned.

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For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the High School's surcharge obligation was \$10,597.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The High School's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$10,597, \$6,964, and \$9,635, respectively. As of June 30, 2017, \$10,597 was shown as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

B. State Teachers Retirement System (STRS)

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 partial 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, 2017, June 30, 2016, and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

Note 11 – Contingencies

A. Grants

The High School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the High School at June 30, 2017.

B. School Foundation

Community School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Community School, which can extend past the fiscal year-end. In addition, ODE may perform a FTE Review subsequent to the fiscal year-end that may result in additional adjustments to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance.

Foxfire High School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Subsequent to June 30, 2017, there were multiple adjustments from the State to the foundation settlement reports for fiscal year 2017. The total of these adjustments indicated that the High School was overpaid by \$9,922. Management believes this does not materially impact the financial statements, therefore it has not been shown as an intergovernmental payable as of June 30, 2017.

In addition, the High School's contract with their Sponsor requires payment based on annual FTE. As discussed above, there were multiple FTE adjustments for fiscal year 2017 and 2016. In total the FTE adjustments of FY17 and FY16 resulted in an overpayment of \$2,352 to the Sponsor. On January 17, 2018, the Sponsor paid this amount back to the High School. Management believes this does not materially impact the financial statements, therefore it has not been shown as an intergovernmental receivable as of June 30, 2017.

C. Litigation

The High School currently is not a party to any lawsuits

Note 12 – Long-Term Obligations

The changes in the High School's long-term obligations during the year consist of the following:

	Outstanding 6/30/2016	Additions	Deletions	Outstanding 6/30/2017	Due Within One Year
Compensated Absences	\$50,420	\$6,611	\$0	\$57,031	\$0
Net Pension Liability:					
SERS	722,004	252,107	0	974,111	0
STRS	1,862,794	465,472	0	2,328,266	0
Total Net Pension Liability	2,584,798	717,579	0	3,302,377	0
Total Long-Term Obligations	\$2,635,218	\$724,190	\$0	\$3,359,408	\$0

There is no repayment schedule for the net pension liability. For additional information related to the net pension liability see Note 9.

Note 13 – Insurance Purchasing Pool

Ohio School Benefits Cooperative

The High School participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

Foxfire High School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. Medical Mutual/Antares is the Administrator of the OSBC. The High School elected to participate in the joint insurance purchasing program for medical and prescription drug coverage.

Note 14 – Change in Accounting Principles

For fiscal year 2017, the High School implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the High School's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

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

	2017	2016	2015	2014
High School's Proportion of the Net Pension Liability	0.0133092%	0.0126532%	0.0122780%	0.0126532%
High School's Proportionate Share of the Net Pension Liability	\$974,111	\$722,004	\$621,382	\$730,133
High School's Covered Payroll	\$411,557	\$385,221	\$337,734	\$375,733
High School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	236.69%	187.43%	183.99%	194.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

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

	2017	2016	2015	2014
High School's Proportion of the Net Pension Liability	0.00695565%	0.00674020%	0.00706668%	0.00706668%
High School's Proportionate Share of the Net Pension Liability	\$2,328,266	\$1,862,794	\$1,718,861	\$2,047,496
High School's Covered Payroll	\$717,839	\$692,179	\$728,854	\$835,908
High School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	324.34%	269.12%	235.83%	244.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

Foxfire High School
Required Supplementary Information
Schedule of the High School Contributions
School Employees Retirement System of Ohio
Last Seven Fiscal Years

	(2) 2017	2016	2015	2014	2013	2012	(1) 2011
Contractually Required Contribution	\$87,606	\$57,618	\$50,772	\$46,810	\$52,001	\$44,939	\$16,652
Contributions in Relation to the Contractually Required Contribution	(87,606)	(57,618)	(50,772)	(46,810)	(52,001)	(44,939)	(16,652)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
High School Covered Payroll	\$625,757	\$411,557	\$385,221	\$337,734	\$375,733	\$334,118	\$132,472
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

(1) - Foxfire High School contracted with the Sponsor District for employees prior to January 1, 2011.

(2) - Foxfire High School increased the number of grades served which increased staff.

Foxfire High School
Required Supplementary Information
Schedule of the High School Contributions
State Teachers Retirement System of Ohio
Last Seven Fiscal Years

	(2) 2017	2016	2015	2014	2013	2012	(1) 2011
Contractually Required Contribution	\$177,132	\$100,497	\$96,905	\$94,751	\$108,668	\$110,496	\$34,414
Contributions in Relation to the Contractually Required Contribution	(177,132)	(100,497)	(96,905)	(94,751)	(108,668)	(110,496)	(34,414)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
High School Covered Payroll	\$1,265,229	\$717,839	\$692,179	\$728,854	\$835,908	\$849,969	\$264,723
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

(1) - Foxfire High School contracted with the Sponsor District for employees prior to January 1, 2011.

(2) - Foxfire High School increased the number of grades served which resulted in an increase in staff.

Foxfire High School, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

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Dave Yost • Auditor of State

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

Foxfire High School
Muskingum County
2805 Pinkerton Road
Zanesville, Ohio 43701

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 Foxfire High School, Muskingum County, Ohio (the High School), a component unit of the Maysville Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

February 20, 2018



Dave Yost • Auditor of State

FOXFIRE HIGH SCHOOL

MUSKINGUM 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 8, 2018**