

***MARION CITY DIGITAL ACADEMY  
(A COMPONENT UNIT OF MARION CITY  
SCHOOL DISTRICT)***

***MARION COUNTY, OHIO***

***FINAL AUDIT REPORT***

***FOR THE YEAR ENDED JUNE 30, 2017 AND  
THE TWO MONTHS ENDED AUGUST 31, 2017***







# Dave Yost • Auditor of State

Governing Board  
Marion City Digital Academy  
420 Presidential Drive, Suite B  
Marion, Ohio 43302-5173

We have reviewed the *Independent Auditor's Report* of the Marion City Digital Academy, Marion County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2016 through August 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 9, 2018

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**MARION CITY DIGITAL ACADEMY**  
**(a Component Unit of Marion City School District)**  
**MARION COUNTY**  
**AUDIT REPORT**

For the year ended June 30, 2017 and the two months ended August 31, 2017

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***Charles E. Harris & Associates, Inc.***  
***Certified Public Accountants***

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## **REPORT OF INDEPENDENT AUDITORS**

Marion City Digital Academy  
Marion County  
420 Presidential Dr., Suite B  
Marion, Ohio 43302

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying modified cash-basis financial statements of the Marion City Digital Academy, Marion County, Ohio (the Academy), a component unit of the Marion City Academy District, as of and for the year ended June 30, 2017, the two months ended August 31, 2017 and the related notes to the financial statements, which collectively comprise Academy'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 the modified cash accounting basis Note 2 describes; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 opinions on these financial statements based on our audit. We conducted our audited 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 Academy'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 Academy'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 the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash financial position of the Marion City Digital Academy, Marion County Ohio as of June 30, 2017 and August 31, 2017, and the changes in modified cash financial position for the year and the two months then ended, respectively in accordance with the modified cash basis of accounting described in Note 2.

***Emphasis of Matter***

The Academy's Board passed a resolution that closed the Academy, as stated in Note 11 of the notes to the financial statements as of August 31, 2017, effective August 7, 2017. The Academy's management has appropriately notified the Ohio Department of Education (ODE) and begun the proper closing procedures. We did not modify our opinion regarding this matter.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of both financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than accounting principles generally accepted in the United States of America. We did not modify our opinion regarding this matter.


***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The management's discussion and analysis and the schedules of net pension liabilities and pension contributions listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not 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 Academy's internal control over financial reporting and compliance.



***Charles E. Harris & Associates, Inc.***  
January 24, 2018



# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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***Management's Discussion and Analysis***  
***For the Fiscal Year Ended June 30, 2017***

***Unaudited***

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

## **HIGHLIGHTS**

MCDA began operations in January 2003. MCDA is an online internet school and students attending annually have fluctuated since its inception. MCDA continues to contract with the Metropolitan Educational Technology Association (META) for a few of the services it needs to educate the students.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the MCDA's cash basis of accounting.

## **Report Components**

The statement of net position and the statement of activities provide information about the cash activities of the MCDA as a whole. The notes to the financial statements are an integral part of the MCDA's government-wide financial statements and provide expanded explanation and detail regarding the information reported in the statements.

## **Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The MCDA has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the MCDA's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2017**

**Unaudited**

FINANCIAL ANALYSIS OF THE MCDA AS A WHOLE

MCDA is not required to present government-wide financial statements as MCDA is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent MCDA's condensed financial information for 2017 and 2016 derived from the statement of net position and the statement of receipts, disbursements, and changes in net position.

	Net Position	
	2017	2016
Cash and Cash Equivalents	\$622,383	\$690,912
Total assets	622,383	690,912
Net position		
Restricted	11,110	11,110
Unrestricted	611,273	679,802
Total net position	\$622,383	\$690,912

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2017 and 2016:

	Change in Net Position	
	2017	2016
Operating Receipts		
Foundation Payments	\$1,054,985	\$1,082,320
All Other Revenue	2,773	901
Total Operating Receipts	1,057,758	1,083,221
Operating Disbursements		
Salaries and Wages	82,410	151,849
Fringe Benefits	18,761	41,468
Purchased Services	977,796	663,950
Supplies and Materials	15,699	13,595
Other Operating Disbursements	141,121	15,978
Total Operating Disbursements	1,235,787	886,840
Operating Income	(178,029)	196,381
Nonoperating Receipts (Disbursements)		
Federal and State Restricted Grants	127,448	171,751
Investment Earnings	604	227
Capital Outlay	(18,552)	(117,525)
Total Nonoperating Receipts (Disbursements)	109,500	54,453
Total Change in Net Position	(68,529)	250,834
Net Position Beginning of Year	690,912	440,078
Net Position End of Year	\$622,383	\$690,912

# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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***Management's Discussion and Analysis***  
***For the Fiscal Year Ended June 30, 2017***

***Unaudited***

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MCDA operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2017 indicate a decrease in net position of \$68,529 and ending net position of \$622,383. The decrease is primarily the result of increased operating disbursements of the Academy. This is a result of increased student population at the Academy.

## **BUDGET**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budgetary process for MCDA. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

## **DEBT ADMINISTRATION**

The MCDA has not issued any debt.

## **ECONOMIC FACTORS**

MCDA is sponsored by the Marion City School District. MCDA relies on State foundation funding as well as federal grants to provide the monies necessary to operate the technology oriented educational program. These funds will continue to help expand the current program.

The future of MCDA is dependent upon continued funding from the State as no local revenue can be generated through tuition or property taxes. MCDA has committed itself to providing state of the art technology based educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of MCDA.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCDA's finances and to reflect MCDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Veronica Reinhart, Treasurer, Marion City Digital Academy, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Statement of Net Position – Cash Basis**  
**June 30, 2017**

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**Assets:**

*Current Assets:*

Cash and Cash Equivalents	\$ 622,383
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<b>Total Assets</b>	<u>622,383</u>
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**Net Position**

Restricted For:

Federally Funded Programs	11,110
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Unrestricted	<u>611,273</u>
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<b>Total Net Position</b>	<u>\$ 622,383</u>
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See accompanying notes to the basic financial statements

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Statement of Receipts, Disbursements and Changes in Net Position – Cash Basis For the Fiscal Year Ended June 30, 2017

<b>Operating Receipts:</b>	
Foundation Payments	\$ 1,054,985
All Other Revenue	2,773
<b>Total Operating Receipts</b>	<u>1,057,758</u>
<b>Operating Disbursements:</b>	
Salaries and Wages	82,410
Fringe Benefits	18,761
Purchased Services	977,796
Supplies and Materials	15,699
Other Operating Disbursements	141,121
<b>Total Operating Disbursements</b>	<u>1,235,787</u>
Operating Loss	(178,029)
<b>Nonoperating Receipts (Disbursements):</b>	
Federal and State Restricted Grants	127,448
Investment Earnings	604
Capital Outlay	(18,552)
<b>Total Nonoperating Receipts (Disbursements)</b>	<u>109,500</u>
Change in Net Position	(68,529)
Net Position Beginning of Year	690,912
Net Position End of Year	<u>\$ 622,383</u>

See accompanying notes to the basic financial statements

# **MARION CITY DIGITAL ACADEMY**

*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

## ***Notes to the Basic Financial Statements*** ***For the Fiscal Year Ended June 30, 2017***

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

Marion City Digital Academy (MCDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MCDA 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 MCDA's tax exempt status. MCDA's objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. MCDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

MCDA was approved for operation under a contract with the Marion City School District (the Sponsor) for the period February 18, 2014 through June 30, 2019. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of MCDA with the Assistant Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2017, MCDA purchased services from the Metropolitan Educational Technology Association (META).

As discussed further in the Basis of Accounting portion of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The following is a summary of its significant accounting policies.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **B. Basis of Presentation**

Enterprise fund 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 (disbursements) related to providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

MCDA's basic financial statements consist of a statement of net position and a statement of receipts, disbursements and changes in net position.

#### **C. Basis of Accounting**

The MCDA's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the MCDA's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

#### **D. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budget requirement. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

#### **E. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2017, MCDA had no investments.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **F. Inventory and Prepaid Items**

The MCDA reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

#### **G. Capital Assets and Depreciation**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

#### **H. Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the MCDA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MCDA policy is to first apply restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net resources are available.

#### **I. Operating Revenues and Expenses**

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

#### **J. Employer Contributions to Cost-Sharing Pension Plans**

The MCDA recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

#### **K. Pension Plans**

For purposes of measuring the net pension liability, 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.



# **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017***

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### **NOTE 2 - COMPLIANCE**

***Financial Reporting*** - Ohio Administrative Code, Section 117-2-03 (B), requires the MCDA to prepare its annual financial report in accordance with generally accepted accounting principles. However, the MCDA prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position /fund balances, and disclosures that, while material, cannot be determined at this time. The MCDA can be fined and various other administrative remedies may be taken against the MCDA.

### **NOTE 3 – CASH AND CASH EQUIVALENTS**

At year end the carrying amount of MCDA's deposits was of \$622,383 and the bank balance was \$624,707. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$374,707 was collateralized in accordance with Ohio Revised Code. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, MCDA will not be able to recover deposits. 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 MCDA.

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# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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## ***Notes to the Basic Financial Statements*** ***For the Fiscal Year Ended June 30, 2017***

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### **NOTE 4 - DEFINED BENEFIT PENSION PLANS**

All of the MCDA's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

#### **A. Net Pension Liability**

The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below. 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 MCDA'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.

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

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# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### A. Net Pension Liability (Continued)

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 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 MCDA's proportion of the net pension liability was based on the MCDA's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$117,852	\$182,646	\$300,498
Proportion of the Net Pension Liability -2017	0.0016102%	0.0005457%	
Proportion of the Net Pension Liability -2016	0.0013707%	0.0007557%	
Percentage Change	0.0002395%	(0.0002100%)	

#### B. Plan Description

##### *School Employees Retirement System (SERS)*

Plan Description –MCDA 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](http://www.ohsers.org) under Employers/Audit Resources.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### B. Plan Description (Continued)

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	Age 65 with 5 years service credit or 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 MCDA 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 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The MCDA's contractually required contribution to SERS was \$6,297 for fiscal year 2017.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### B. Plan Description (Continued)

##### *State Teachers Retirement System (STRS)*

Plan Description –MCDA 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](http://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 year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% 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.

# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017*

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### **B. Plan Description** (Continued)

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

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

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, the employer rate was 14% and the member rate was 13% of covered payroll. The statutory employer rate for fiscal 2017 and subsequent years is 14%. The statutory member contribution rate increased to 14% on July 1, 2016.

The MCDA's contractually required contribution to STRS was \$4,540 for fiscal year 2017.

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# MARION CITY DIGITAL ACADEMY

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## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### C. Actuarial Assumptions

##### *School Employees Retirement System (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, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 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 RP-2014 Blue Collar 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, 2015.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
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## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### C. Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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. 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.



# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### C. Actuarial Assumptions (Continued)

*Sensitivity of the MCDA'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%)
MCDA's proportionate share of the net pension liability	\$156,028	\$117,852	\$85,896

#### *State Teachers Retirement System (STRS)*

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

Inflation	2.75 percent
Projected salary 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.

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

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

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:

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Actuarial Assumptions (Continued)**

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
MCDA's proportionate share of the net pension liability	\$242,721	\$182,646	\$131,968

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 the School District's Net Pension Liability is expected to be significant.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017

### NOTE 5 - POSTEMPLOYMENT BENEFITS

#### A. School Employee Retirement System

Plan Description – The MCDA 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](http://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 a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2017, no percentage of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount (\$23,500 for 2017), pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

MCDA's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$316, respectively; which were equal to the required contributions for each year.

# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017*

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### NOTE 5 - POSTEMPLOYMENT BENEFITS (Continued)

#### **B. State Teachers Retirement System**

Plan Description – The MCDA contributes to 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. 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](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS 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 2017, STRS Ohio allocated employer contributions equal to zero percent of covered payroll to the Health Care Stabilization Fund.

### NOTE 6 – RELATED PARTY TRANSACTIONS

MCDA is a component unit of the Sponsor (Marion City School District). MCDA and Marion City School District entered into a sponsorship agreement on February 18, 2014, whereby terms of the sponsorship were established. Pursuant to this agreement, Marion City School District's Treasurer serves as MCDA's fiscal officer.

In fiscal year 2017, other payments made by MCDA to the Sponsor totaled \$1,008,580. These represent payments of \$31,647 for administrative services provided by Marion City School District to MCDA and \$876,933 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA and \$100,000 for a turf project.

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## **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017***

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#### **NOTE 7 – FISCAL AGENT**

The sponsorship agreement states that if and agreed by MCDA and its Sponsor, the Sponsor shall be the fiscal agent of the Academy and shall provide the services of a qualified individual who shall serve as the Academy's fiscal officer. During 2017, the Sponsor's Treasurer served as the Academy's fiscal officer.

The Treasurer of the Sponsor shall perform the following functions while serving as the Treasurer of MCDA:

- 1) Maintain the financial records of MCDA in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- 2) Comply with the policies and procedures regarding internal financial control of MCDA; and
- 3) Comply with the requirements and procedures for financial audits by the Auditor of State.

#### **NOTE 8 – CONTRACT WITH META**

MCDA entered into a contract in July 2011, with Metropolitan Educational Technology Association (META) for management consulting services. Under the contract, the following terms were agreed upon:

- 1) META shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement MCDA's educational plan and MCDA's assessment and accountability plan.
- 2) All personnel providing services to MCDA on behalf of META under the agreement shall be employees of META and META shall be solely responsible for all payroll functions, including retirement system contributions, and all other legal withholding and/or payroll taxes with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- 3) MCDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of MCDA.
- 4) Curricular services provided by META shall be limited to the standardized curriculum developed by META.
- 5) In exchange for the services and support provided by META, MCDA shall pay to META per full-time student enrolled in MCDA per year plus fees for any additional services requested. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2017, \$9,484 was paid to META.

To obtain META's June 30, 2017, audited financial statements contact David Varda, Treasurer, at [dvarda@metasolutions.net](mailto:dvarda@metasolutions.net).

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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017**

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**NOTE 9 – RISK MANAGEMENT**

MCDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, MCDA obtained the following insurance coverage through Marion City School District’s insurance policy.

Insurance Provider	Item Covered	Coverage Amount
Liberty Mutual	General Liability	\$1,000,000/per occurrence
Liberty Mutual	Aggregate	2,000,000

There has been no significant reduction in insurance coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**NOTE 10 - CONTINGENCIES**

**A. Grants**

MCDA receives financial assistance from federal 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCDA at June 30, 2017.

**B. Litigation**

MCDA is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2017.

**C. School Foundation**

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of January 18, 2018, ODE has finalized the impact of enrollment adjustments to the June 30, 2017 foundation funding for the Academy. The Academy owes the Ohio Department of Education \$765,501.

# **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017***

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### **NOTE 11 – PURCHASED SERVICES**

During the year, purchased services expenses were as follows:

Salaries	\$962,785
Supplies	1,870
Contractual Services	3,907
Professional Services	1,891
Insurance	1,545
Total	<u><u>\$977,796</u></u>

### **NOTE 12 – SUBSEQUENT EVENT**

During August of 2017, it was determined that the Marion Digital Academy will be closing permanently as of August 31, 2017.

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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Required Supplemental Information**  
**Schedule of MCDA's Proportionate Share of the Net Pension Liability**  
**Last Four Fiscal Years**

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<b>State Teachers Retirement System</b>				
Fiscal Year	2013	2014	2015	2016
District's proportion of the net pension liability	0.000941%	0.000941%	0.000756%	0.000546%
District's proportionate share of the net pension liability	\$272,735	\$228,959	\$208,845	\$182,646
District's covered-employee payroll	\$146,802	\$96,654	\$88,707	\$58,207
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.78%	236.89%	235.43%	313.79%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	74.70%	72.10%	66.80%

Source: District Treasurer's Office and State Teachers Retirement System

<b>School Employees Retirement System</b>				
Fiscal Year	2013	2014	2015	2016
District's proportion of the net pension liability	0.001376%	0.001376%	0.001371%	0.001610%
District's proportionate share of the net pension liability	\$81,826	\$69,639	\$78,213	\$117,852
District's covered-employee payroll	\$34,064	\$40,209	\$40,926	\$48,007
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	240.21%	173.19%	191.11%	245.49%
Plan fiduciary net position as a percentage of the total pension liability	65.52%	71.70%	69.16%	62.98%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.



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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Required Supplemental Information**  
**Schedule of MCDA Contributions**  
**Last Four Fiscal Years**

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<b>State Teachers Retirement System</b>				
Fiscal Year	2014	2015	2016	2017
Contractually required contribution	\$12,565	\$12,419	\$8,149	\$4,540
Contributions in relation to the contractually required contribution	<u>12,565</u>	<u>12,419</u>	<u>8,149</u>	<u>4,540</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$96,654	\$88,707	\$58,207	\$32,429
Contributions as a percentage of covered-employee payroll	13.00%	14.00%	14.00%	14.00%

Source: District Treasurer's Office and State Teachers Retirement System

<b>School Employees Retirement System</b>				
Fiscal Year	2014	2015	2016	2017
Contractually required contribution	\$5,573	\$5,394	\$6,721	\$6,297
Contributions in relation to the contractually required contribution	<u>5,573</u>	<u>5,394</u>	<u>6,721</u>	<u>6,297</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$40,209	\$40,926	\$48,007	\$44,979
Contributions as a percentage of covered-employee payroll	13.86%	13.18%	14.00%	14.00%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.  
Information prior to 2014 is not available.

# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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***Management's Discussion and Analysis***  
***For the two months Ended August 31, 2017***

***Unaudited***

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The management's discussion and analysis of Marion City Digital Academy's ("MCDA") financial performance provides an overall review of MCDA's financial activities for the two months ended August 31, 2017. The intent of this discussion and analysis is to look at MCDA's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the MCDA's financial performance.

## **HIGHLIGHTS**

MCDA began operations in January 2003. MCDA is an online internet school and students attending annually have fluctuated since its inception. The Marion City School District Board of Education voted to close the MCDA on August 7, 2017.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the MCDA's cash basis of accounting.

## **Report Components**

The statement of net position and the statement of activities provide information about the cash activities of the MCDA as a whole. The notes to the financial statements are an integral part of the MCDA's government-wide financial statements and provide expanded explanation and detail regarding the information reported in the statements.

## **Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The MCDA has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the MCDA's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

**Management's Discussion and Analysis**  
**For the two months Ended August 31, 2017**

**Unaudited**

FINANCIAL ANALYSIS OF THE MCDA AS A WHOLE

MCDA is not required to present government-wide financial statements as MCDA is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent MCDA's condensed financial information for the two months ended August 31, 2017 and year ended June 30, 2017 derived from the statement of net position and the statement of receipts, disbursements, and changes in net position.

	Net Position	
	August 31, 2017	June 30, 2017
Cash and Cash Equivalents	\$639,400	\$622,383
Total assets	<u>639,400</u>	<u>622,383</u>
Net position		
Restricted	11,110	11,110
Unrestricted	628,290	611,273
Total net position	<u>\$639,400</u>	<u>\$622,383</u>

Changes in Net Position – The following table shows the changes in net position for the two months ended August 31, 2017 and year end June 30, 2017:

	Change in Net Position	
	August 31, 2017	June 30, 2017
Operating Receipts		
Foundation Payments	\$87,531	\$1,054,985
All Other Revenue	4,506	2,773
Total Operating Receipts	<u>92,037</u>	<u>1,057,758</u>
Operating Disbursements		
Salaries and Wages	9,369	82,410
Fringe Benefits	1,504	18,761
Purchased Services	796	977,796
Supplies and Materials	43	15,699
Other Operating Disbursements	63,881	141,121
Total Operating Disbursements	<u>75,593</u>	<u>1,235,787</u>
Operating Income	16,444	(178,029)
Nonoperating Receipts (Disbursements)		
Federal and State Restricted Grants	311	127,448
Investment Earnings	262	604
Capital Outlay	0	(18,552)
Total Nonoperating Receipts (Disbursements)	<u>573</u>	<u>109,500</u>
Total Change in Net Position	17,017	(68,529)
Net Position Beginning of Year	622,383	690,912
Net Position End of Year	<u>\$639,400</u>	<u>\$622,383</u>

# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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***Management's Discussion and Analysis***  
***For the two months Ended August 31, 2017***

***Unaudited***

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MCDA operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of two months ended August 31, 2017 indicate an increase in net position of \$17,017 and ending net position of \$639,400.

## **BUDGET**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budgetary process for MCDA. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

## **DEBT ADMINISTRATION**

The MCDA has not issued any debt.

## **ECONOMIC FACTORS**

MCDA is sponsored by the Marion City School District. MCDA relies on State foundation funding as well as federal grants to provide the monies necessary to operate the technology oriented educational program. The Marion City School District Board of Education voted to close the MCDA on August 7, 2017.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCDA's finances and to reflect MCDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Veronica Reinhart, Treasurer, Marion City Digital Academy, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Statement of Net Position – Cash Basis**  
**August 31, 2017**

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**Assets:**

*Current Assets:*

Cash and Cash Equivalents \$ 639,400

**Total Assets** 639,400

**Net Position**

Restricted For:

    Federally Funded Programs 11,110

Unrestricted 628,290

**Total Net Position** \$ 639,400

See accompanying notes to the basic financial statements

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Statement of Receipts, Disbursements and Changes in Net Position – Cash Basis For the two months Ended August 31, 2017

<b>Operating Receipts:</b>	
Foundation Payments	\$ 87,531
All Other Revenue	4,506
<b>Total Operating Receipts</b>	<u>92,037</u>
<b>Operating Disbursements:</b>	
Salaries and Wages	9,369
Fringe Benefits	1,504
Purchased Services	796
Supplies and Materials	43
Other Operating Disbursements	63,881
<b>Total Operating Disbursements</b>	<u>75,593</u>
Operating Income	16,444
<b>Nonoperating Receipts:</b>	
Federal and State Restricted Grants	311
Investment Earnings	262
<b>Total Nonoperating Receipts</b>	<u>573</u>
Change in Net Position	17,017
Net Position Beginning of Year	622,383
Net Position End of Year	<u>\$ 639,400</u>

See accompanying notes to the basic financial statements

# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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## ***Notes to the Basic Financial Statements*** ***For the two months Ended August 31, 2017***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

Marion City Digital Academy (MCDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MCDA 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 MCDA's tax exempt status. MCDA's objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. MCDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

MCDA was approved for operation under a contract with the Marion City School District (the Sponsor) for the period February 18, 2014 through August 31, 2019. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of MCDA with the Assistant Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During the two months ended August 31, 2017, MCDA purchased services from the Metropolitan Educational Technology Association (META).

As discussed further in the Basis of Accounting Portion of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The following is a summary of its significant accounting policies.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the two months Ended August 31, 2017*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **B. Basis of Presentation**

Enterprise fund 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 (disbursements) related to providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

MCDA's basic financial statements consist of a statement of net position and a statement of receipts, disbursements and changes in net position.

#### **C. Basis of Accounting**

The MCDA's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the MCDA's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

#### **D. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budget requirement. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

#### **E. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During 2017, MCDA had no investments.



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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements* *For the two months Ended August 31, 2017*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **F. Inventory and Prepaid Items**

The MCDA reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

#### **G. Capital Assets and Depreciation**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

#### **H. Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the MCDA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MCDA policy is to first apply restricted resources when a disbursement is made for purposes for which both restricted and unrestricted net resources are available.

#### **I. Operating Revenues and Expenses**

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

#### **J. Employer Contributions to Cost-Sharing Pension Plans**

The MCDA recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

#### **K. Pension Plans**

For purposes of measuring the net pension liability, 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.

# **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## ***Notes to the Basic Financial Statements For the two months Ended August 31, 2017***

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### **NOTE 2 - COMPLIANCE**

***Financial Reporting*** - Ohio Administrative Code, Section 117-2-03 (B), requires the MCDA to prepare its annual financial report in accordance with generally accepted accounting principles. However, the MCDA prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position /fund balances, and disclosures that, while material, cannot be determined at this time. The MCDA can be fined and various other administrative remedies may be taken against the MCDA.

### **NOTE 3 – CASH AND CASH EQUIVALENTS**

At year end the carrying amount of MCDA's deposits was of \$639,400 and the bank balance was \$639,400. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$389,400 was collateralized in accordance with Ohio Revised Code. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, MCDA will not be able to recover deposits. 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 MCDA.

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# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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## ***Notes to the Basic Financial Statements*** ***For the two months Ended August 31, 2017***

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### **NOTE 4 - DEFINED BENEFIT PENSION PLANS**

All of the MCDA's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

#### **A. Net Pension Liability**

The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below. 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 MCDA'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.

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

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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Notes to the Basic Financial Statements**  
**For the two months Ended August 31, 2017**

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**NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)**

**A. Net Pension Liability (Continued)**

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 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 MCDA's proportion of the net pension liability was based on the MCDA's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$117,852	\$182,646	\$300,498
Proportion of the Net Pension Liability	0.0016102%	0.00054565%	

**B. Plan Description**

***School Employees Retirement System (SERS)***

Plan Description –MCDA 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](http://www.ohsers.org) under Employers/Audit Resources.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### B. Plan Description (Continued)

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	Age 65 with 5 years service credit or 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 MCDA 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 two months ended August 31, 2017, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The MCDA's contractually required contribution to SERS was \$850 for the two months ended August 31, 2017.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### **B. Plan Description** (Continued)

##### *State Teachers Retirement System (STRS)*

Plan Description –MCDA 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](http://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 year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% 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.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements* *For the two months Ended August 31, 2017*

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### **B. Plan Description** (Continued)

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

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

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, the employer rate was 14% and the member rate was 13% of covered payroll. The statutory employer rate for the two months 2017 and subsequent years is 14%. The statutory member contribution rate increased to 14% on July 1, 2016.

The MCDA's contractually required contribution to STRS was \$1,224 for the two months ended August 31, 2017.

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### C. Actuarial Assumptions

##### *School Employees Retirement System (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, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 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 RP-2014 Blue Collar 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, 2015.



# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### C. Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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. 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.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### C. Actuarial Assumptions (Continued)

*Sensitivity of the MCDA'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%)
MCDA's proportionate share of the net pension liability	\$156,028	\$117,852	\$85,896

#### *State Teachers Retirement System (STRS)*

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

Inflation	2.75 percent
Projected salary 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.

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

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

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:

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

*Notes to the Basic Financial Statements  
For the two months Ended August 31, 2017*

**NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Actuarial Assumptions (Continued)**

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
MCDA's proportionate share of the net pension liability	\$242,721	\$182,646	\$131,968

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 the School District's Net Pension Liability is expected to be significant.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

### NOTE 5 - POSTEMPLOYMENT BENEFITS

#### A. School Employee Retirement System

Plan Description – The MCDA 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](http://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 a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2017, no percentage of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount (\$23,500 for 2017), pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

MCDA's contributions for health care for the two months ended August 31, 2017, and fiscal years 2017, and 2016 were \$0 for all three periods.

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## **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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***Notes to the Basic Financial Statements***  
***For the two months Ended August 31, 2017***

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**NOTE 5 - POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System**

Plan Description – The MCDA contributes to 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. 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](http://www.strsoh.org) or by calling (888) 227-7877.

***Funding Policy*** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS 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 2017, STRS Ohio allocated employer contributions equal to zero percent of covered payroll to the Health Care Stabilization Fund. The MCDA's contributions for health care for the two months ended August 31, 2017, and fiscal years 2017, and 2016 were \$0 for all three periods.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

MCDA is a component unit of the Sponsor (Marion City School District). MCDA and Marion City School District entered into a sponsorship agreement on February 18, 2014, whereby terms of the sponsorship were established. Pursuant to this agreement, Marion City School District's Treasurer serves as MCDA's fiscal officer.

There were no payments made by MCDA to the Sponsor for the two months ended August 31, 2017.

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## **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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### ***Notes to the Basic Financial Statements*** ***For the two months Ended August 31, 2017***

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#### **NOTE 7 – FISCAL AGENT**

The sponsorship agreement states that if and agreed by MCDA and its Sponsor, the Sponsor shall be the fiscal agent of the Academy and shall provide the services of a qualified individual who shall serve as the Academy's fiscal officer. During 2017, the Sponsor's Treasurer served as the Academy's fiscal officer.

The Treasurer of the Sponsor shall perform the following functions while serving as the Treasurer of MCDA:

- 1) Maintain the financial records of MCDA in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- 2) Comply with the policies and procedures regarding internal financial control of MCDA; and
- 3) Comply with the requirements and procedures for financial audits by the Auditor of State.

#### **NOTE 8 – CONTRACT WITH META**

MCDA entered into a contract in July 2011, with Metropolitan Educational Technology Association (META) for management consulting services. Under the contract, the following terms were agreed upon:

- 1) META shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement MCDA's educational plan and MCDA's assessment and accountability plan.
- 2) All personnel providing services to MCDA on behalf of META under the agreement shall be employees of META and META shall be solely responsible for all payroll functions, including retirement system contributions, and all other legal withholding and/or payroll taxes with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- 3) MCDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of MCDA.
- 4) Curricular services provided by META shall be limited to the standardized curriculum developed by META.
- 5) In exchange for the services and support provided by META, MCDA shall pay to META per full-time student enrolled in MCDA per year plus fees for any additional services requested. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the two months ended August 31, 2017, there were no payments made to META.

To obtain META's June 30, 2017, audited financial statements contact David Varda, Treasurer, at [dvarda@metasolutions.net](mailto:dvarda@metasolutions.net).

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

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### NOTE 9 – RISK MANAGEMENT

MCDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2017, MCDA obtained the following insurance coverage through Marion City School District's insurance policy.

Insurance Provider	Item Covered	Coverage Amount
Liberty Mutual	General Liability	\$1,000,000/per occurrence
Liberty Mutual	Aggregate	2,000,000

There has been no significant reduction in insurance coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

### NOTE 10 - CONTINGENCIES

#### A. Grants

MCDA receives financial assistance from federal 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCDA at August 31, 2017.

#### B. Litigation

MCDA is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of August 31, 2017.

#### C. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of January 18, 2018, ODE has finalized the impact of enrollment adjustments to the August 31, 2017 foundation funding for the Academy. The Academy owes the Ohio Department of Education \$765,501.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the two months Ended August 31, 2017

### NOTE 11 – CEASED OPERATIONS/SUBSEQUENT EVENTS/GOING CONCERN

Marion City School District, sponsor for the Marion Digital Academy, a discretely presented component unit of the District, approved the closure of the Academy on August 7, 2017.

The Academy's Board passed a resolution that announced the closing of the Academy effective August 8, 2017. The Academy's management has appropriately notified the Ohio Department of Education (ODE) and began the proper closing procedures. The Academy's assets at the end of the two months ended August 31, 2017 consisted of cash in a checking account and capital assets. The cash balance, as shown below, subsequently increased from \$639,400 at August 31, 2017 to \$643,310 at January 24, 2018 and is to be paid out for contractual services incurred following the report date. The capital assets, which had a combined value of less than \$5,000, were donated to the Marion City School District. After all other contractual services are paid, the remaining amount will be paid to the ODE.

Activity subsequent to August 31, 2017 was as follows:

Other Revenue	\$ 8,746
Interest Earnings	<u>572</u>
Total Revenue	<u>9,308</u>
Other Operating Disbursements	<u>(5,408)</u>
Net Change in Cash	3,910
Cash Balance August 31, 2017	<u>639,400</u>
Cash Balance January 24, 2018	<u>\$643,310</u>



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**MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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**Required Supplemental Information**  
**Schedule of MCDA's Proportionate Share of the Net Pension Liability**  
**Last Four Fiscal Years**

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<b>State Teachers Retirement System</b>					August 31
Fiscal Year	2013	2014	2015	2016	2017
District's proportion of the net pension liability	0.000941%	0.000941%	0.000756%	0.000546%	0.000546%
District's proportionate share of the net pension liability	\$272,735	\$228,959	\$208,845	\$182,646	\$182,646
District's covered-employee payroll	\$146,802	\$96,654	\$88,707	\$58,207	\$32,429
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.78%	236.89%	235.43%	313.79%	563.23%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	74.70%	72.10%	66.80%	66.80%

Source: District Treasurer's Office and State Teachers Retirement System

<b>School Employees Retirement System</b>					
Fiscal Year	2013	2014	2015	2016	2017
District's proportion of the net pension liability	0.001376%	0.001376%	0.001371%	0.001610%	0.001610%
District's proportionate share of the net pension liability	\$81,826	\$69,639	\$78,213	\$117,852	\$117,852
District's covered-employee payroll	\$34,064	\$40,209	\$40,926	\$48,007	\$44,979
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	240.21%	173.19%	191.11%	245.49%	262.02%
Plan fiduciary net position as a percentage of the total pension liability	65.52%	71.70%	69.16%	62.98%	62.98%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## ***Required Supplemental Information Schedule of MCDA Contributions Last Four Fiscal Years***

	<b>State Teachers Retirement System</b>				Two Months Ended August 31
Fiscal Year	2014	2015	2016	2017	2017
Contractually required contribution	\$12,565	\$12,419	\$8,149	\$4,540	\$1,224
Contributions in relation to the contractually required contribution	<u>12,565</u>	<u>12,419</u>	<u>8,149</u>	<u>4,540</u>	<u>1,224</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$96,654	\$88,707	\$58,207	\$32,429	\$8,743
Contributions as a percentage of covered-employee payroll	13.00%	14.00%	14.00%	14.00%	14.00%

Source: District Treasurer's Office and State Teachers Retirement System

	<b>School Employees Retirement System</b>				
Fiscal Year	2014	2015	2016	2017	2018
Contractually required contribution	\$5,573	\$5,394	\$6,721	\$6,297	\$850
Contributions in relation to the contractually required contribution	<u>5,573</u>	<u>5,394</u>	<u>6,721</u>	<u>6,297</u>	<u>850</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$40,209	\$40,926	\$48,007	\$44,979	\$6,071
Contributions as a percentage of covered-employee payroll	13.86%	13.18%	14.00%	14.00%	14.00%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2014 is not available.

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***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' 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

Marion City Digital Academy  
Marion County  
420 Presidential Dr., Suite B  
Marion, Ohio 43302

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States 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 Marion City Digital Academy (the Academy), a component of the Marion City School District, as of and for the year ended June 30, 2017, and the two months ended August 31, 2017 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 24, 2018. We noted the Academy reports on the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles. We also noted the Academy has ceased operations as of August 31, 2017.

**Internal Controls Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 Academy'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 Academy's financial statements are free of 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2017-001.

### **Entity's Response to Finding**

The Academy's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



*Charles E. Harris & Associates, Inc.*  
January 24, 2018

MARION CITY DIGITAL ACADEMY  
MARION COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2017

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

FINDING NUMBER 2017-001

**Noncompliance – Basis of Accounting**

Ohio Administrative Code Section 117-2-03 (B) states “All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles.”

The Academy prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. To be in compliance with the Ohio Administrative Code, the Academy should use generally accepted accounting principles in future annual financial reports. By not following generally accepted accounting principles, the Academy can be fined and subjected to other remedies.

**Officials Response:**

See Corrective Action Plan

MARION CITY DIGITAL ACADEMY  
MARION COUNTY  
For the Year Ended June 30, 2017 and  
the Two Months Ended August 31, 2017

SUMMARY OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2016-001	Contrary to <b>Ohio Administrative Code Section 117-2-03(B)</b> , Academy does not prepare its financial report in accordance with accounting principles generally accepted in the United States of America.	Not corrected	Reissued as finding # 2017-001

MARION CITY DIGITAL ACADEMY  
MARION COUNTY

CORRECTIVE ACTION PLAN  
June 30, 2017

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2017-001	In light of the higher costs, absence a material benefit, and financial constraints, Marion City Digital Academy has chosen to prepare non-GAAP financial statements.	N/A	Veronica Reinhart, Treasurer

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# Dave Yost • Auditor of State

**MARION CITY DIGITAL ACADEMY**

**MARION 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  
DECEMBER 18, 2018**