



Dave Yost • Auditor of State

**MARION CITY DIGITAL ACADEMY
(A Component Unit of Marion City School District)**

MARION COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Marion City Digital Academy, Marion County, Ohio (MCDA), a component unit of the Marion City School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise MCDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion City Digital Academy, Marion County, Ohio, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2015, MCDA adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2016, on our consideration of MCDA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCDA's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

February 11, 2016

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, 2015

Unaudited

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, 2015. 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) formerly known as TRECA for a few of the services it needs to educate the students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of two parts – management's discussion and analysis and the basic financial statements. These statements are organized so the reader can understand the financial position of MCDA. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of net position represents the basic statement of position for MCDA. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The statement of cash flows reflects how MCDA finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

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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 2015 and 2014 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	Net Position	
	2015	Restated 2014
Current and other assets	\$513,493	\$378,187
Capital assets, Net	3,440	1,878
Total assets	<u>516,933</u>	<u>380,065</u>
Deferred outflows of resources	20,610	18,138
Net pension liability	298,598	354,561
Other liabilities	110,866	21,494
Total liabilities	<u>409,464</u>	<u>376,055</u>
Deferred inflows of resources	<u>53,661</u>	<u>0</u>
Net position		
Investment in capital assets	3,440	1,878
Unrestricted	<u>70,978</u>	<u>20,270</u>
Total net position	<u>\$74,418</u>	<u>\$22,148</u>

During 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$358,571 to \$22,148.

MARION CITY DIGITAL ACADEMY

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2015 and 2014:

	Change in Net Position	
	2015	2014
Operating Revenues		
Foundation Payments	\$778,489	\$592,560
All Other Revenue	3,779	1,748
Total Operating Revenues	<u>782,268</u>	<u>594,308</u>
Operating Expenses		
Salaries and Wages	148,622	199,052
Fringe Benefits	30,001	36,536
Purchased Services	613,400	478,952
Supplies and Materials	17,249	34,724
Depreciation	1,275	991
Other Operating Expense	752	1,394
Total Operating Expenses	<u>811,299</u>	<u>751,649</u>
Operating Loss	(29,031)	(157,341)
Nonoperating Revenues (Expenses)		
Federal and State Restricted Grants	81,118	117,832
Investment Earnings	183	213
Total Nonoperating Revenues (Expenses)	<u>81,301</u>	<u>118,045</u>
Total Change in Net Position	52,270	(39,296)
Net Position Beginning of Year, Restated	22,148	N/A
Net Position End of Year	<u>\$74,418</u>	<u>\$22,148</u>

MARION CITY DIGITAL ACADEMY

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$18,138 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$13,039. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Business-Type Activities
Total 2015 program expenses under GASB 68	\$811,299
Pension expense under GASB 68	(13,039)
2015 contractually required contribution	17,813
Adjusted 2015 program expenses	816,073
Total 2014 program expenses under GASB 27	751,649
Increase in program expenses not related to pension	\$64,424

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 2015 indicate an increase in net position of \$52,270 and ending net position of \$74,418. The increase is the result of increased Foundation payments from the State. 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.

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, 2015*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, MCDA had \$3,440 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2015 and 2014:

	Business-Type Activities		Increase (Decrease)
	2015	2014	
Equipment	\$180,985	\$178,148	\$2,837
Less: Accumulated Depreciation	(177,545)	(176,270)	(1,275)
Totals	\$3,440	\$1,878	\$1,562

The increase in capital assets is due the purchase of video security. Additional information on MCDA's capital assets can be found in Note 7.

Debt

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.

MCDA continues with the professional development sequence initiated in prior years. The training was implemented as selected staff of the Marion City School District, as the sponsoring school district, will teach students of MCDA. These staff members have been trained to deliver instruction through a digital environment. This group of Marion City School District teachers is putting theory into practice by teaching selected colleagues in MCDA. All grade levels and subject areas are represented and taught by these teachers. These teachers continue to attend professional development training sessions to consult with experienced staff in this environment.

As stated in our original vision for this collaboration, it is anticipated that these teachers (and other teachers to follow) will instruct students online of both MCDA and Marion City School District.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

Unaudited

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

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

Statement of Net Position June 30, 2015

Assets:

Current Assets:

Cash and Cash Equivalents	\$	440,078
Receivables:		
Intergovernmental		<u>73,415</u>
Total Current Assets		<u>513,493</u>

Non Current Assets:

Capital Assets, Net of Accumulated Depreciation		<u>3,440</u>
Total Assets		<u>516,933</u>

Deferred Outflows of Resources:

Pension		<u>20,610</u>
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Liabilities:

Current Liabilities:

Accounts Payable		91,487
Accrued Wages and Benefits		15,387
Intergovernmental Payable		<u>3,992</u>
Total Current Liabilities		<u>110,866</u>

Long Term Liabilities:

Net Pension Liability		<u>298,598</u>
Total Liabilities		<u>409,464</u>

Deferred Inflows of Resources:

Pension		<u>53,661</u>
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Net Position

Investment in Capital Assets		3,440
Unrestricted		<u>70,978</u>
Total Net Position	\$	<u>74,418</u>

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 Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2015

Operating Revenues:	
Foundation Payments	\$ 778,489
All Other Revenue	<u>3,779</u>
Total Operating Revenues	<u>782,268</u>
Operating Expenses:	
Salaries and Wages	148,622
Fringe Benefits	30,001
Purchased Services	613,400
Supplies and Materials	17,249
Depreciation	1,275
Other Operating Expense	<u>752</u>
Total Operating Expenses	<u>811,299</u>
Operating Loss	(29,031)
Nonoperating Revenues:	
Federal and State Restricted Grants	81,118
Investment Earnings	<u>183</u>
Total Nonoperating Revenues	<u>81,301</u>
Change in Net Position	52,270
Net Position Beginning of Year, Restated	<u>22,148</u>
Net Position End of Year	<u>\$ 74,418</u>

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 Cash Flows For the Fiscal Year Ended June 30, 2015

<u>Cash Flows from Operating Activities:</u>	
Cash Received for School Foundation	\$778,489
Cash Received from Other Revenue	3,779
Cash Payments for Personal Services	(150,212)
Cash Payments for Fringe Benefits	(32,793)
Cash Payments for Goods and Services	(541,669)
Cash Payments for Other Expenses	(752)
Net Cash Provided by Operating Activities	<u>56,842</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Restricted Grants Received	<u>9,763</u>
Net Cash Provided by Noncapital Financing Activities	<u>9,763</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	<u>(2,837)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,837)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	<u>183</u>
Net Cash Provided by Investing Activities	<u>183</u>
Net Increase in Cash and Cash Equivalents	63,951
Cash and Cash Equivalents at Beginning of Year	<u>376,127</u>
Cash and Cash Equivalents at End of Year	<u>\$440,078</u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Loss	(\$29,031)
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	1,275
Changes in Assets and Liabilities:	
Increase in Deferred Outflows-Pension	(2,472)
Increase in Accounts Payable	90,605
Decrease in Accrued Wages and Benefits	(1,590)
Increase in Intergovernmental Payables	1,982
Decrease is Due to Primary Government	(1,625)
Decrease in Net Pension Liability	(55,963)
Increase in Deferred Inflows-Pension	<u>53,661</u>
Total Adjustments	<u>85,873</u>
Net Cash Provided by Operating Activities	<u>\$56,842</u>

See accompanying notes to the basic financial statements

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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, 2015***

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 2015, MCDA purchased services from the Metropolitan Educational Technology Association (META) formerly known as TRECA.

The accounting policies and financial reporting practices of the MCDA conform to generally accepted accounting principles as applicable to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of its significant accounting policies.

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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

MCDA's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise reporting focuses on the determination of the change in net position, financial position and cash flows.

C. Measurement Focus

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

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

Non-exchange transactions, in which MCDA receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which MCDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to MCDA on a reimbursement basis.

MARION CITY DIGITAL ACADEMY

(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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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.

F. 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 2015, MCDA had no investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. There are no prepaid items as of June 30, 2015.

H. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. MCDA maintains a capitalization threshold of \$500. MCDA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

1. Property, Plant and Equipment

Property, plant and equipment acquired by MCDA are stated at cost (or estimated historical cost). Contributed capital assets are recorded at fair market value at the date received.

2. Depreciation

All capital assets are depreciated excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Furniture, Fixtures and Equipment	5 - 10

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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Investment in capital assets consist of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by 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 an expense is incurred for purposes for which both restricted and unrestricted net resources are available. MCDA did not have a restricted net position at fiscal year end.

J. Estimates

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

K. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For MCDA, these revenues are foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

L. Pensions

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

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, 2015

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the MCDA implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

	Business-Type Activities
Net position June 30, 2014	\$358,571
Adjustments:	
Net Pension Liability	(354,561)
Deferred Outflow - Payments Subsequent to Measurement Date	18,138
Restated Net Position June 30, 2014	<u>\$22,148</u>

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

MARION CITY DIGITAL ACADEMY

(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, 2015***

NOTE 3 – CASH AND CASH EQUIVALENTS

At year end the carrying amount of MCDA's deposits was of \$440,078 and the bank balance was \$440,713. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$190,713 was uninsured and collateralized with securities held by the pledging institution's trust department, not in MCDA's name. 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.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015 consisted of intergovernmental receivables. The total of \$73,415 is for federal restricted grants, all of which is considered collectible.

MARION CITY DIGITAL ACADEMY

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - 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 reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the 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.

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.

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

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

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary. One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The MCDA's contractually required contribution to SERS was \$5,394 for fiscal year 2015. Of this amount \$919 is reported as an intergovernmental payable.

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - 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.

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

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

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

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - 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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The MCDA was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The MCDA's contractually required contribution to STRS was \$12,419 for fiscal year 2015. Of this amount \$1,590 is reported as an intergovernmental payable.

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The net pension liability was measured as of June 30, 2014, 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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$69,639	\$228,959	\$298,598
Proportion of the Net Pension Liability	0.001376%	0.0009413%	
Pension Expense	\$4,096	\$8,943	\$13,039

At June 30, 2015, the MCDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$593	\$2,204	\$2,797
School District contributions subsequent to the measurement date	5,394	12,419	17,813
Total Deferred Outflows of Resources	\$5,987	\$14,623	\$20,610
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$11,303	\$42,358	\$53,661
Total Deferred Inflows of Resources	\$11,303	\$42,358	\$53,661

\$17,813 reported as deferred outflows of resources related to pension resulting from MCDA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$2,677)	(\$10,038)	(\$12,715)
2017	(2,678)	(10,039)	(12,717)
2018	(2,677)	(10,038)	(12,715)
2019	(2,678)	(10,039)	(12,717)
Total	(\$10,710)	(\$40,154)	(\$50,864)

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

D. 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, 2014, are presented below:

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

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation.

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Sensitivity of the 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 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$99,354	\$69,639	\$44,646

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

D. Actuarial Assumptions (Continued)

State Teachers Retirement System (STRS)

The total pension liability in the June 30, 2014, 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, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

D. Actuarial Assumptions (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$327,780	\$228,959	\$145,390

NOTE 6 - 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 under Employers/Audit Resources.

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required 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 2015, 0.82 percent 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 (\$20,450 for 2015), 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, 2015, 2014, and 2013 were \$316, \$139, and \$198, respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2015, this actuarially required allocation was 0.74 percent of covered payroll. MCDA's contributions for Medicare Part B for the fiscal years ended June 30, 2015, 2014, and 2013 were \$285, \$246, and \$237 respectively; which were equal to the required contributions for each year.

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

NOTE 6 - 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 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 2015, STRS Ohio allocated employer contributions equal to zero percent of covered payroll to the Health Care Stabilization Fund. MCDA's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$1,100, and \$1,836 respectively; which were equal to the required contributions for each year.

NOTE 7 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2015:

<i>Historical Cost:</i>				
Class	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<i>Capital Assets being depreciated:</i>				
Equipment	\$178,148	\$2,837	\$0	\$180,985
Total Cost	\$178,148	\$2,837	\$0	\$180,985
<i>Accumulated Depreciation:</i>				
Class	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Equipment	(\$176,270)	(\$1,275)	\$0	(\$177,545)
Total Depreciation	(\$176,270)	(\$1,275)	\$0	(\$177,545)
<i>Net Value:</i>	\$1,878			\$3,440

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Notes to the Basic Financial Statements ***For the Fiscal Year Ended June 30, 2015***

NOTE 8 – 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 Assistant Treasurer serves as MCDA's fiscal officer.

In fiscal year 2015, other payments made by MCDA to the Sponsor totaled \$499,181. These represent payments of \$23,355 for administrative services provided by Marion City School District to MCDA and \$475,826 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

NOTE 9 – 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 2015, the Sponsor's Assistant Treasurer served as the Academy's fiscal officer.

The Assistant 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.

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Notes to the Basic Financial Statements ***For the Fiscal Year Ended June 30, 2015***

NOTE 10 – CONTRACT WITH META

MCDA entered into a contract in July 2011, with Metropolitan Educational Technology Association (META) formerly known as TRECA 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 2015, \$9,910 was paid to META.

To obtain META's June 30, 2015, audited financial statements contact Scott Armstrong, Treasurer, at sarmstrong@metasolutions.net.

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MARION COUNTY, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015**

NOTE 11 – 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 2015, MCDA obtained the following insurance coverage through Marion City School District’s insurance policy.

Insurance Provider	Item Covered	Coverage Amount
Ohio Casualty	General Liability	\$1,000,000/per occurrence
Ohio Casualty	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 12 - 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, 2015.

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, 2015.

C. School Foundation

As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

MARION CITY DIGITAL ACADEMY

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

Required Supplemental Information
Schedule of District's Proportionate Share of the Net Pension Liability
Current Fiscal Year

	State Teachers Retirement System	
Fiscal Year	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability (asset)	0.00094131%	0.00094131%
District's proportionate share of the net pension liability (asset)	\$228,959	\$272,735
District's covered-employee payroll	\$96,654	\$146,802
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	236.89%	185.78%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

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

	School Employees Retirement System	
Fiscal Year	<u>2014</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.001376%	0.001376%
District's proportionate share of the net pension liability (asset)	\$69,639	\$81,826
District's covered-employee payroll	\$40,209	\$34,064
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	173.19%	240.21%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

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 District Contributions
Last Two Fiscal Years

State Teachers Retirement System

Fiscal Year	2014	2015
Contractually required contribution	\$12,565	\$12,419
Contributions in relation to the contractually required contribution	<u>12,565</u>	<u>12,419</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$96,654	\$88,707
Contributions as a percentage of covered-employee payroll	13.00%	14.00%

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

School Employees Retirement System

Fiscal Year	2014	2015
Contractually required contribution	\$5,573	\$5,394
Contributions in relation to the contractually required contribution	<u>5,573</u>	<u>5,394</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$40,209	\$40,926
Contributions as a percentage of covered-employee payroll	13.86%	13.18%

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.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Marion City Digital Academy, Marion County, Ohio, (MCDA), a component unit of Marion City School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise MCDA's basic financial statements and have issued our report thereon dated February 11, 2016, wherein we noted MCDA adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

February 11, 2016

**MARION CITY DIGITAL ACADEMY
(A Component Unit of Marion City School District)
MARION COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2015-001

**Material Weakness
Financial Reporting**

Sound financial reporting is the responsibility of the Treasurer and Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. Additionally, MCDA contracts with an independent accounting firm to compile their GAAP financial statements. However, the Treasurer is responsible to review and approve their work.

During fiscal year 2015, an audit adjustment in the amount of \$90,897 was made to the June 30, 2015 financial statements to record payables that were not booked.

By not properly recording transactions, inaccurate financial reports could be disseminated to the governing board and management as well as financial statement readers.

We recommend MCDA implement internal control procedures over financial reporting to help ensure the completeness and accuracy of financial information reported within MCDA's annual report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions. The adjustment identified during the audit should be reviewed by the Treasurer to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, the Board of Directors should review the financial statements and note disclosures to identify and correct errors and omissions.

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

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MARION CITY SCHOOL DISTRICT 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
MARCH 17, 2016**