

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2018



OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Board of Directors
Utica Shale Academy of Ohio
1879 Deerfield Road
Lebanon, Ohio 45036

We have reviewed the *Independent Auditor's Report* of the Utica Shale Academy of Ohio, Columbiana County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 Utica Shale Academy of Ohio is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 6, 2020

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**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY
AUDIT REPORT
For the Year Ended June 30, 2018**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-6
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10-26
Required Supplementary Information:	
Schedule of the Academy’s Proportionate Share of the Net Pension Liability – State Teachers Retirement System (STRS) of Ohio	28
Schedule of the Academy’s Pension Contributions - State Teachers Retirement System (STRS) of Ohio	29
Schedule of the Academy’s Proportionate Share of the net OPEB Liability – School Employees Retirement System (SERS) of Ohio.....	30
Schedule of the Academy’s OPEB Contributions - School Employees Retirement System (SERS) of Ohio.....	31
Notes to Required Supplementary Information.....	32
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33-34
Schedule of Audit Findings.....	35-37
Schedule of Prior Audit Findings – Prepared by Management.....	38

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INDEPENDENT AUDITOR'S REPORT

Utica Shale Academy of Ohio
Columbiana County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Utica Shale Academy of Ohio, Columbiana County, Ohio (the Academy), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utica Shale Academy of Ohio, Columbiana County, Ohio as of June 30, 2018 and the changes of 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, 2018, the Academy adopted new guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

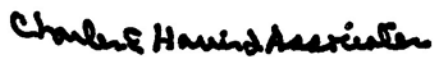
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities, other postemployment benefit liabilities, and pension and other postemployment benefit contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2020 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
February 28, 2020

Utica Shale Academy of Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of the Utica Shale Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2018 are as follows:

- Total net position decreased \$46,892. This is a 54% decrease from the prior fiscal year.
- Total revenues increased \$62,426. This is a 14% increase from the prior fiscal year.
- Total expenses increased \$22,099. This is a 4% increase from the prior fiscal year.

Using this Annual Report

This annual report consists of the Management's Discussion and Analysis, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2018"? The statement of net position includes all assets and deferred outflows, and liabilities and deferred inflows using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

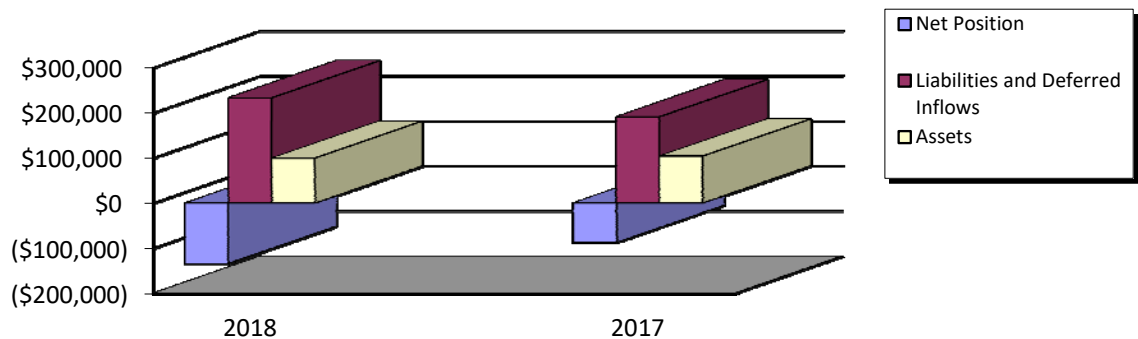
These two statements report the Academy's net position and change in net position. This change in net position is important because it tells the reader that the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the Academy's facility conditions, required educational programs and other factors.

**Utica Shale Academy of Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Table 1 provides a summary of the Academy's net position for fiscal year 2018 compared to fiscal year 2017 as follows:

**Table 1
Net Position**

	Governmental Activities	
	2018	2017
Assets:		
Current and Other Assets	\$37,650	\$104,060
Total Assets	37,650	104,060
Deferred Outflow of Resources:		
OPEB	7,976	0
Pension	53,566	0
Total Deferred Outflow of Resources	61,542	0
Liabilities:		
Other Liabilities	53,704	60,622
Long-Term Liabilities	176,994	130,468
Total Liabilities	230,698	191,090
Deferred Inflow of Resources		
OPEB	798	0
Pension	1,618	0
Total Deferred Inflow of Resources	2,416	0
Net Position:		
Unrestricted	(133,922)	(87,080)
Total Net Position	(\$133,922)	(\$87,080)



Utica Shale Academy of Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Net Position of the Academy decreased by \$46,892. The decrease in total net position from fiscal year 2017 is primarily due to the decrease in cash and investments.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2018 and 2017.

Table 2
Changes in Net Position

	Fiscal Year	
	2018	2017
Operating Revenues:		
Foundation Revenue	\$404,639	\$395,504
Other Revenues	19,651	134
Total Operating Revenues	<u>424,290</u>	<u>395,638</u>
Operating Expenses:		
Salaries	20,725	22,300
Fringe Benefits	0	10,678
Purchased Services	457,115	431,402
Materials and Supplies	4,796	11,186
Other Expenses	60,798	45,769
Total Operating Expenses	<u>543,434</u>	<u>521,335</u>
Non-Operating Revenues (Expenses):		
Grants and Subsidies	<u>72,252</u>	<u>38,478</u>
Total Non-Operating Revenues (Expenses)	<u>72,252</u>	<u>38,478</u>
Change in Net Position	(46,892)	(87,219)
Net Position - Beginning of Year	<u>(87,030)</u>	<u>189</u>
Net Position - End of Year	<u><u>(\$133,922)</u></u>	<u><u>(\$87,030)</u></u>

Total operating revenues increased primarily due to an increase in Foundation revenue. Total operating expenses increased primarily due to an increase in purchased services because of an increase in enrollment.

**Utica Shale Academy of Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Capital Assets and Debt

At June 30, 2018, the Academy had no capital assets and \$131,128 in long-term liabilities due to an ODE settlement agreement. The following table shows fiscal year 2018 balances compared to fiscal year 2017 as follows:

	Fiscal Year	
	2018	2017
Intergovernmental Payable	\$131,128	\$130,468

For the Future

The Academy will strive to continue its success in future years and will continuously look for ways to enhance the student learning process.

The Academy’s management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

Contacting the Academy’s Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy’s finances and to show the Academy’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer at Warren County ESC, 1879 Deerfield Road, Lebanon, Ohio 45036.

Utica Shale Academy - Columbiana County, Ohio
Statement of Net Position
June 30, 2018

Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$30,431
Receivables:	
Intergovernmental	7,154
Prepayments	65
	<hr/>
Total Assets	37,650
Deferred Outflows of Resources:	
Pension	53,566
OPEB	7,976
	<hr/>
Total Deferred Outflows of Resources	61,542
Liabilities:	
Current Liabilities:	
Intergovernmental payable	53,704
	<hr/>
Total Current Liabilities	53,704
Long-Term Liabilities:	
Net Pension Liability	39,396
Intergovernmental payable	131,128
Net OPEB Liability	6,470
	<hr/>
Total Liabilities	230,698
Deferred Inflows of Resources:	
OPEB	798
Pension	1,618
	<hr/>
Total Deferred Inflows of Resources	2,416
Net Position:	
Unrestricted	(133,922)
	<hr/>
Total Net Position	<u><u>(\$133,922)</u></u>

See accompanying notes to the basic financial statements.

Utica Shale Academy - Columbiana County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Operating Revenues:	
Foundation Revenue	\$404,639
Other Operating Revenues	19,651
Total Operating Revenues	<u>424,290</u>
Operating Expenses:	
Salaries	20,725
Purchased Services	457,115
Materials and Supplies	4,796
Other	60,798
Total Operating Expenses	<u>543,434</u>
Operating Income (Loss)	<u>(119,144)</u>
Non-Operating Revenues (Expenses):	
State and Federal Grants and Subsidies	<u>72,252</u>
Total Non-Operating Revenues (Expenses)	<u>72,252</u>
Change in Net Position	(46,892)
Net Position - Beginning of Year	<u>(87,030)</u>
Net Position - End of Year	<u><u>(\$133,922)</u></u>

See accompanying notes to the basic financial statements.

Utica Shale Academy - Columbiana County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$459,003
Other Operating Cash Receipts	19,651
Cash Payments to Employees for Salaries and Benefits	(33,988)
Cash Payments for Goods and Services	(522,533)
Cash Payments for Other Expenses	(60,798)
Net Cash Provided (Used) by Operating Activities	<u>(138,665)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	<u>65,098</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>65,098</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(73,567)
Cash and Cash Equivalents - Beginning of Year	<u>103,998</u>
Cash and Cash Equivalents - End of Year	<u><u>\$30,431</u></u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$119,144)
Changes in Assets & Liabilities:	
(Increase) Decrease in Deferred Outflows for Pension	(53,566)
(Increase) Decrease in Prepayments	(3)
Increase (Decrease) in Accrued Liabilities	1,457
(Increase) Decrease in Deferred Outflows for OPEB	(7,976)
Increase (Decrease) in Payables	(7,715)
Increase (Decrease) in Net Pension Liability	39,396
Increase (Decrease) in Deferred Inflows for Pension	1,618
Increase (Decrease) in Net OPEB Liability	6,470
Increase (Decrease) in Deferred Inflows for OPEB	798
Net Cash Provided (Used) by Operating Activities	<u><u>(\$138,665)</u></u>

See accompanying notes to the basic financial statements.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 – Description of the Academy

The Utica Shale Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status. The Academy specializes in an innovative high school curriculum that will serve as a leading institution for all students who seek to explore, develop and enhance career opportunities as well as further advance their education. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue or be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On March 4, 2014, the Academy, was approved under contract with Jefferson County Educational Service Center (the “Sponsor”) commencing on July 1, 2014 and ending on June 30, 2019. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy has entered into purchased service agreements with Jefferson County Educational Service Center, Columbiana Exempted Village School District, and Southern Local School District to provide various purchased services to the Academy. Terms of the purchased service agreements are further described in Note 6.

The Academy operates under the direction of a self-appointed, five-member Board of Directors. The Board is responsible for carrying out 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.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy’s significant accounting policies are described below.

Basis of Presentation

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

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

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows, and all liabilities and deferred inflows are included on the Statement of Net Position. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources includes pension and other post employment benefits. These amounts are reported on the statement of net position. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources includes pension and other post employment benefits. These amounts have been recorded as deferred inflows on the statement of net position. Deferred inflows related to pension and OPEB plans are reported on the statement of net position. For more pension and OPEB related information, see Notes 9 and 10.

Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast, no later than October 31 of each year.

Cash

All monies received by the Academy are deposited into a demand deposit account and is presented on the financial statement as “cash and cash equivalents.”

Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of governments. The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Intergovernmental Revenue

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2018 school year, excluding all other federal and state grants, totaled \$404,639.

Revenues received from the remaining programs are recognized as non-operating revenue in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. State and federal grants revenue for the fiscal year 2018 was \$72,252.

Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed. The Academy had \$65 in prepaids to report at June 30, 2018.

Estimates

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

Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The Academy maintains a capitalization threshold of \$5,000. The Academy 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. The Academy had no capital assets to report at June 30, 2018.

GASB Pronouncements

For the fiscal year ended June 30, 2018, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 – Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2018, \$0 of the Academy's bank balance of \$199,694 was exposed to custodial credit risk because it was fully FDIC insured.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the Academy and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Note 4 – Operating Lease

The Academy school facilities are located in space leased at Southern Local School District and also at Columbiana Exempted Village Schools. The lease agreement with Southern Local School District is for the period of February 10, 2014 through July 1, 2019 and the lease agreement with Columbiana Exempted Village Schools is for the period June 30, 2015 through July 1, 2020. The base rental of the leases is \$100 per month. The minimum lease payments for fiscal year 2018 total \$2,400.

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Academy was covered under its own insurance policy for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage. There were no significant reductions in insurance coverage from the prior year and settled claims have not exceeded insurance coverage in each of the past three fiscal years.

Note 6 - Purchased Services

For the fiscal year ended June 30, 2018, purchased service expenses were as follows:

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

<u>Purchased Services</u>	<u>Amounts</u>
Regular Instruction	\$82,281
Special Instruction	6,400
General Support Services Administration	330,951
Fiscal/Technology	12,342
General Facilities Operations & Maintenance	<u>25,141</u>
Total Purchased Services	<u><u>\$457,115</u></u>

Note 7 – Sponsor Contract

The Academy entered into a five-year contract commencing on July 1, 2014 and continuing through June 30, 2019 with the Jefferson County Educational Service Center (the “Sponsor”) for its establishment. The sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy’s compliance with the laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Provide reasonable technical assistance to the Academy in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the Academy);
- Take steps to intervene in the Academy’s operation to correct problems in the Academy’s overall performance, declare the Academy to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant Ohio Revised Code Section 3314.073, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the Academy experiences financial difficulties or losses before the end of the school year;
- Provide in writing the annual assurances for the Academy no later than ten business days prior to the opening of the Academy, as required in Ohio Revised Code Section 3314.19;
- Abiding by the requirements in its contract with the Ohio Department of Education, even should those requirements affect the Academy and/or the Governing Authority; and
- The Sponsor shall not enter into any contracts with current vendors of the Governing Authority without proper notice to the Governing Authority.

For the services listed above, the Academy is required to pay a fee to the Sponsor for the oversight and monitoring of the Academy. The fee is equal to 3% of all funds received from the State. The Academy paid the Sponsor \$113,833.61 for services during fiscal year 2018.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 8 - Contingencies

Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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 the Academy at June 30, 2018.

Litigation

The Academy is involved in no material litigation as either plaintiff or defendant.

State Foundation Funding

- A. School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The 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.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2016 & 2017. On January 3, 2018, ODE signed off on the 2016 & 2017 FTE Settlement Agreement with the Academy, which detailed the repayment plan. As a result, the Academy is responsible for paying back \$66,980.58 from ODE's FY16 FTE Final Determination with payments made over 54 months starting July 2018. The amount owed back to ODE for the FY16 FTE adjustment is considered a liability for the school.

The Academy had contracts in fiscal year 2016 directly tied to the school's FTE, which included the Academy's Fiscal Agent contract, School Sponsor contract, and Management Agreement. The Academy recovered \$4,977.57 from Jefferson County ESC for overpaying them on the Fiscal Sponsor and School Sponsor contracts. The Academy also recovered \$3,970.75 from Southern Local School District for overpaying them on the Management Agreement contract.

- B. Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. The Settlement Agreement between the Academy and, ODE requires the Academy to repay \$116,394.78 from the FY17 FTE Final adjustments over 54 months beginning in July 2018. However, the Academy paid \$52,906.70 back to ODE out of their monthly Community School Foundation payment for the FY17 FTE adjustments during fiscal year 2018, which only leaves \$63,488.08 left to repay. The amount owed back to ODE for the FY17 FTE adjustment is considered a liability for the school.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The Academy had contracts in fiscal year 2017 directly tied to the school's FTE, which included the Academy's Fiscal Agent contract, School Sponsor contract, and Management Agreement. The Academy recovered \$3,491.63 from Jefferson County ESC for overpaying the School Sponsor contracts, \$4,687.88 from Warren County ESC for overpaying the Fiscal Agent contract, and \$3,970.75 from Southern Local School District for overpaying the Management Agreement contract.

The Academy also had an agreement with ODE for the FY18 FTE settlement repayment. The Settlement Agreement between the Academy and ODE requires the Academy to repay \$54,363.51 from the FY18 FTE Final adjustments over 22 months beginning in September 2018. The amount owed back to ODE for the FY18 FTE adjustment is considered a liability for the school.

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

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

The net pension liability represents the employer'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 obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer 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 accrued wages and benefits.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Plan Description - State Teachers Retirement System (STRS)

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

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

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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.

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

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

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

10 years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14% of their annual covered salary. The employer was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The contractually required contribution to STRS was \$4,501 for fiscal year 2018.

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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on the share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>
Proportionate Share of the Net Pension Liability	\$39,396
Proportion of the Net Pension Liability:	
Current Measurement Date	0.00016584%
Prior Measurement Date	<u>0.00000000%</u>
Change in Proportionate Share	0.00016584%
Pension Expense	\$(8,051)

At June 30, 2018, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>STRS</u>
Deferred Outflows of Resources	
Differences between expected and actual experience	\$1,521
Changes of assumptions	8,616
Changes in employer proportionate share of net pension liability	38,928
Contributions subsequent to the measurement date	<u>4,501</u>
Total Deferred Outflows of Resources	<u><u>\$53,566</u></u>
Differences between expected and actual experience	\$318
Net difference between projected and actual earnings on pension plan investments	<u>1,300</u>
Total Deferred Inflows of Resources	<u><u>\$1,618</u></u>

\$4,501 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>STRS</u>
2019	\$11,505
2020	13,274
2021	21,981
2022	<u>687</u>
Total	<u><u>\$47,447</u></u>

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS investment consultant

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table represents the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current assumption:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$56,472	\$39,396	\$25,011

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 10 – Defined Benefit Other Postemployment Benefits (OPEB) Plans

Net Other Postemployment Benefits (OPEB) Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The net OPEB liability represents the Academy's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at year-end is included in accrued liabilities on the accrual basis of accounting.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability was based on the employer's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>STRS</u>
Proportionate Share of the Net OPEB Liability	\$6,470
Proportion of the Net OPEB Liability:	
Current Measurement Date	0.00016584%
Prior Measurement Date	0.00000000%
Change in Proportionate Share	<u>0.00016584%</u>
OPEB Expense	\$708

At June 30, 2018, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>STRS</u>
Deferred Outflows of Resources	
Differences between expected and actual experience	\$374
Changes in employer proportionate share of net pension liability	7,602
Total Deferred Outflows of Resources	<u>\$7,976</u>
Deferred Inflows of Resources	
Changes of assumptions	\$521
Net difference between projected and actual earnings on pension plan investments	277
Total Deferred Inflows of Resources	<u>\$798</u>

\$0 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>STRS</u>
2019	\$1,173
2020	1,173
2021	1,173
2022	1,173
2023	1,243
Thereafter	<u>1,243</u>
Total	<u>\$7,178</u>

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

*10 year annualized geometric nominal returns, which includes the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate

The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13%) or one percentage point higher (5.13%) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
Proportionate share of the net OPEB liability	\$8,686	\$6,470	\$4,719

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	\$4,495	\$6,470	\$9,070

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Note 11 – Subsequent Event

On December 15, 2019 the Academy’s sponsor changed to the Ohio Department of Education. Also, the Academy’s Board of Directors voted to shut down the Columbiana site effective 3/1/2020.

REQUIRED SUPPLEMENTARY INFORMATION

Utica Shale Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Current Fiscal Year (1)

	<u>2018</u>
Academy's Proportion of the Net Pension Liability	0.00016584%
Academy's Proportionate Share of the Net Pension Liability	\$39,396
Academy's Covered Payroll	\$0
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2018 is not available.

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

See accompanying notes to the required supplementary information.

Utica Shale Academy
 Required Supplementary Information
 Schedule of Academy Contributions
 for Net Pension Liability
 State Teachers Retirement System of Ohio
 Current Fiscal Year (1)

	<u>2018</u>
Contractually Required Contribution	\$4,501
Contributions in Relation to the Contractually Required Contribution	<u>(4,501)</u>
Contribution Deficiency (Excess)	<u>\$0</u>
Academy Covered Payroll	\$32,150
Contributions as a Percentage of Covered-Employee Payroll	14.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2018 is not available.

See accompanying notes to the required supplementary information.

Utica Shale Academy
 Required Supplementary Information
 Schedule of the Academy's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 State Teachers Retirement System of Ohio
 Current Fiscal Year (1)

	<u>2018</u>
Academy's Proportion of the Net OPEB Liability	0.00016584%
Academy's Proportionate Share of the Net OPEB Liability	\$6,470
Academy's Covered Payroll	\$0
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	0.00%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2018 is not available.

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

See accompanying notes to the required supplementary information.

Utica Shale Academy
 Required Supplementary Information
 Schedule of Academy Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 State Teachers Retirement System of Ohio
 Current Fiscal Year (1)

	<u>2018</u>
Contractually Required Contribution to OPEB	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>
Academy Covered Payroll	\$32,150
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2018 is not available.

See accompanying notes to the required supplementary information.

Utica Shale Academy of Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2018

Note 1 - STRS Change in Assumptions and Benefit Terms-Net Pension Liability

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 2 - STRS Change in Assumptions-Net OPEB Liability

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Utica Shale Academy of Ohio
Columbiana County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Governing Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Utica Shale Academy of Ohio, Columbiana County, Ohio (the Academy), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated February 28, 2020. We noted the Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control 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 opinion 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.

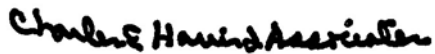
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Audit Findings as item 2018-002 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Audit Findings as item 2018-001.

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.
February 28, 2020

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO
SCHEDULE OF AUDIT FINDINGS
For the Year Ended June 30, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2018-001 – Material Noncompliance – Educational Hours

Ohio Rev. Code 3314.03(A)(11)(a) states, in part, “The School will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.” **Ohio Rev. Code 3314.27** states, in relevant part, that “...each internet or computer-based community school shall keep an accurate record of each individual student’s participation in learning opportunities each day.”

Ohio Admin. Rule 3301-69-02(B)(2) lists eight reasons for absences to be excused and the school must determine by contact with the parent or guardian if the reason for absence is one of the eight listed. If the reason for absence is not one of the eight, the student must be marked unexcused for that day. Written documentation is required for excused absences and should be dated and collected in a timely fashion. **Ohio Rev. Code 2151.011(B)(22)** provides for an additional list of legitimate excuses authorized as excused absences. Excuses for “excused” absences should be available in the school office and with the class list for each attendance teacher. This includes notes from home, phone logs, suspension notices, and other relevant documents. All excuses from parents, and other documents, regardless of format or condition, become official attendance records. **Ohio Rev. Code 3317.031** requires the membership record to be kept intact for at least five years and shall be made available to the State Board of Education or its representative in making an audit of the average daily membership or the transportation of the district. The Academy Attendance policy states that any student that does not participate at school or home when school is in session will be marked absent and a written statement of the cause of such absence is required in accordance with statute. In addition, the Excuses portion of the handbook states, in part, that all students must present a written excuse on the day the return from an absence and the excuse should be dated, include a reason and the date of absence, and be signed by the parent or guardian. Finally, the Daily Schedule portion of the handbook states that students not attending school must participate in education any day school is in session.

Ohio Rev. Code 3301.079(K)(1) defines “Blended Learning” as the delivery of instruction in a combination of time in a supervised physical location away from home and online delivery whereby the student has some element of control over time, place, path, or place of learning.

The Utica Shale Academy Community School Contract Section 12 “Instructional Program and Education Philosophy, states “Each school year, the School shall provide learning opportunities to a minimum of twenty-five (25) students for a minimum of nine hundred twenty (920) hours per school year.” In addition, the student handbook and Attendance Policy, states, in part, the Academy utilized a Blended Learning model. Students are required to participate in 920 total education hours throughout the course of a school year. Students must participate in educational opportunities for an average of 6 hours per day. 690, or 75% of the hours must be obtained in the classroom at school or in conjunction with school activities (i.e. field trips, site visits, etc.). The remaining hours (230) may be accumulated through a combination of in-class

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO
SCHEDULE OF AUDIT FINDINGS - Continued
For the Year Ended June 30, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (continued)
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Finding Number 2018-001 – Material Noncompliance – Educational Hours (continued)

seat-time and/or participation in online curriculum outside of the school building following the guidelines on blended learning provided by ORC 3301.079. A student’s school year will be considered complete when they have accrued all required and satisfactorily completed all courses in which they are enrolled.

The contract with the sponsor does comply with the requirements of Ohio Rev. Code 3314.03(A)(11)(a) minimum requirements. It was noted that the Academy is open 6 hours a day for 154 days (for a total of 924 hours).

However, testing revealed the following:

- The students are only required to be in the classroom for two or three hours per day or until two modules are completed to account for 75% of the student attendance, or 690 hours. Therefore, a full time student is only required to attend school for 308-462 hours per year which does not meet the 690 hour requirement or 75% for the Academy’s classroom time. This is the practice of the Academy however, it is not consistent with the language in the Board-approved Attendance policy and annual student handbook.
- The Academy did not maintain sign- in sheets for students.
- The Academy did not have documentation to support the five excused absences selected for testing.

Failure of the Academy to require the minimum number hours of attendance could result in students not receiving credit for attending the Academy and could impact the foundation receipts based on attendance. In addition, the Academy’s inability to provide documentation to support the FTE requirements for durational engagement for each student in EMIS prevented the testing of compliance regarding to educational hours.

The Academy should work with the Sponsor to ensure the minimum 920 hours per year are being met and documented. Moreover, the Sponsor should review the monthly FTE support and EMIS data that is to be submitted to ODE to allow the Sponsor to monitor compliance more effectively. The Academy should review the statutory requirements to determine what documentation is needed to support the FTE data reported for each student and ensure supporting documentation is not be discarded. The Academy should consider using ODE’s most recent FTE manual as further guidance to determine what information ODE considers to be needed to support FTE reporting. Finally, the Academy should review their handbook and policies governing documenting attendance to classroom and nonclassroom time and documenting of student absences and ensure they include the proper information and are being followed.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO
SCHEDULE OF AUDIT FINDINGS - Continued
For the Year Ended June 30, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (continued)
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Finding Number 2018-002 – Material Weakness – Accurate Posting of Transactions

The Academy maintains its records on the cash basis throughout the year and contracts with an outside consultant to convert its year end statements to conform to Generally Accepted Accounting Principles.

An effective system of internal control provides for the prevention or detection and timely correction of material misstatements of the financial statements. While management may obtain outside consultants to assist in the preparation of financial statements, management is responsible for reviewing and approving the work of those consultants and retains responsibility for the accuracy of those financial statements.

The Academy did not have an adequate process to detect financial statement errors in a timely manner and, accordingly, the 2018 financial statements included an overstatement of Foundation Revenue and Other expenses by \$52,907 due to errors in adjustments related to ODE clawback payments. These adjustments were posted to the audited financial statements and Academy records.

We recommend that management review the financial statements prepared by the consultant in detail to identify any potential material misstatements.

Management Response:

We did not receive a management response for either finding above.

UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY
For the Year Ended June 30, 2018

SCHEDULE OF PRIOR AUDIT FINDINGS-PREPARED BY MANAGEMENT

FINDING NUMBER	FUNDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2017-001	Noncompliance and Material Weakness– Educational Hours	Not corrected.	No response.
2017-002	Material Weakness – Accurate Posting of Transactions	Not corrected.	No response.

OHIO AUDITOR OF STATE KEITH FABER



UTICA SHALE ACADEMY OF OHIO

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 16, 2020**