

Dave Yost • Auditor of State

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Beacon Hill Community School
Wayne County
161 South Main Street
Creston, Ohio 44217

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Beacon Hill Community School, Wayne County, Ohio (the School), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no 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 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 Beacon Hill Community School, Wayne 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 3 to the financial statements, during the year ended June 30, 2015, the School 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 March 30, 2016, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 30, 2016

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

The management's discussion and analysis of the Beacon Hill Community School's ("School") financial performance provides an overall review of the School's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- In total, net position was a balance of \$2,035 at June 30, 2015.
- The School had operating revenues of \$503,438, operating expenses of \$570,115 and nonoperating revenues of \$119,617 for fiscal year 2015. The total change in net position for the fiscal year was an increase of \$52,940.

Using the Basic Financial Statements

This annual report consists of management's discussion and analysis, the basic financial statements and the notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position and the statement of revenues, expenses and changes in net position provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and 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 the School do financially during fiscal year 2015?" These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and change in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-26 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's net pension liability. The required supplementary information can be found on pages 27 through 29 of this report.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

The table below provides a summary of the School's net position at June 30, 2015 and June 30, 2014. Balances at June 30, 2014 have been restated as described in Note 3 to the basic financial statements.

	Net Position	
	2015	Restated 2014
<u>Assets</u>		
Current assets	\$ 129,579	\$ 38,889
Capital assets, net	5,535	-
Total assets	135,114	38,889
<u>Deferred outflows of resources</u>	699	1,040
<u>Liabilities</u>		
Current liabilities	118,602	75,492
Non-current liabilities	13,057	15,342
Total liabilities	131,659	90,834
<u>Deferred inflows of resources</u>	2,119	-
<u>Net Position</u>		
Investment in capital assets	5,535	-
Restricted	51,674	14,745
Unrestricted (deficit)	(55,174)	(65,650)
Total net position (deficit)	\$ 2,035	\$ (50,905)

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

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

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

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

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

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

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

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

As a result of implementing GASB 68, the School 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 a deficit of \$36,603 to a deficit of \$50,905.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the School's net position was a balance of \$2,035.

Current assets include the School's demand deposit and savings accounts, a non-negotiable certificate of deposit and receivables related to federal grants. Current liabilities include accounts payable and intergovernmental payables due to vendors for goods and services and payments owed to Southeast Local School District and Tri-County Educational Service Center for services provided to the School by those entities. An intergovernmental payable has also been recorded for amounts owed to the Ohio Department of Education at fiscal year-end (see Note 9.B to the basic financial statements for detail).

At year-end, capital assets represented 4.10% of total assets. Capital assets include copier equipment. Net investment in capital assets at June 30, 2015, was \$5,535. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the School's net position, \$51,674, represents resources that are subject to external restriction on how they may be used. Unrestricted net position were a deficit \$55,174 at fiscal year-end.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

The table below shows the changes in net position for fiscal years 2015 and 2014.

Change in Net Position

	<u>2015</u>	<u>(Restated) 2014</u>
<u>Operating Revenues:</u>		
State foundation	\$ 464,359	\$ 431,341
Charges for services	<u>39,079</u>	<u>25,657</u>
Total operating revenues	<u>503,438</u>	<u>456,998</u>
<u>Operating Expenses:</u>		
Salaries and benefits	1,721	11,908
Purchased services	518,923	444,042
Materials and supplies	22,187	32,542
Depreciation	615	-
Other	<u>26,669</u>	<u>22,999</u>
Total operating expenses	<u>570,115</u>	<u>511,491</u>
<u>Nonoperating Revenues:</u>		
Grants and subsidies	101,016	56,134
Interest revenue	42	29
Donations and contributions	<u>18,559</u>	<u>26,253</u>
Total nonoperating revenues	<u>119,617</u>	<u>82,416</u>
Change in net position	52,940	27,923
Net position (deficit) at beginning of year (restated)	<u>(50,905)</u>	N/A
Net position (deficit) at end of year	<u>\$ 2,035</u>	<u>\$ (50,905)</u>

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 \$1,040 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 \$763.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 570,115
Pension expense under GASB 68	(763)
2015 contractually required contributions	<u>588</u>
Adjusted 2015 program expenses	569,940
Total 2014 program expenses under GASB 27	<u>511,491</u>
Increase in program expenses not related to pension	<u>\$ 58,449</u>

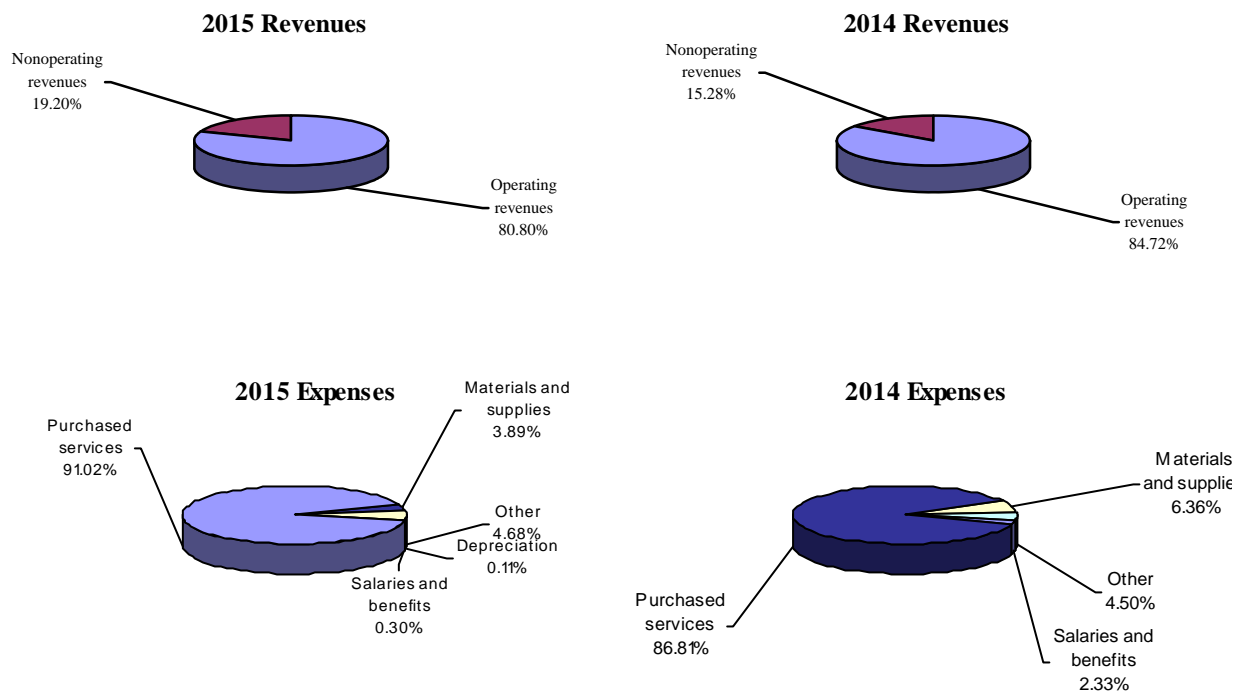
**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

Fiscal year 2015 was the fourth year of operations for the School. The School is reliant upon State foundation revenue to support operations. The School also receives federal grant revenue which is reported as non-operating revenue.

Purchased services are the largest expense to the School. Purchased services expenses primarily include payments made to Southeast Local School District and Tri-County Educational Service Center for various services as outlined in Note 14 to the basic financial statements. The School employed the treasurer during fiscal year 2014, resulting in an increase in salaries and benefits for 2014. In fiscal year 2015 this position was paid for through purchased services.

The charts below illustrate the revenues and expenses for the School during fiscal years 2015 and 2014.



Capital Assets

At the end of fiscal year 2015, the School had \$5,535 in capital assets, net of depreciation, consisting of equipment.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

The following table shows fiscal year 2015 capital asset balances. The School had no capital assets at June 30, 2014.

**Capital Assets at June 30
(Net of Depreciation)**

	<u>2015</u>
Equipment	\$ 6,150
Accumulated depreciation	<u>(615)</u>
Total	<u><u>\$ 5,535</u></u>

See Note 7 of the notes to the basic financial statements for detail on the capital assets.

Current Financial Related Activities

The School is reliant upon State foundation monies and State and federal grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Sandy Hadsell, Treasurer, Beacon Hill Community School, 161 S. Main St., Creston, OH 44217.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2015**

Assets:

Current assets:

Cash and cash equivalents	\$	107,751
Receivables:		
Intergovernmental.		18,190
Prepayments		3,638
		129,579
Total current assets		129,579

Non-current assets:

Depreciable capital assets, net		5,535
		135,114
Total assets.		135,114

Deferred outflows of resources:

Pension - SERS		699
Total deferred outflows of resources		699

Liabilities:

Current liabilities:

Accounts payable.		634
Intergovernmental payable		117,968
		118,602
Total current liabilities		118,602

Non-current liabilities:

Net pension liability		13,057
Total liabilities		131,659

Deferred inflows of resources:

Pension - SERS		2,119
Total deferred inflows of resources		2,119

Net position:

Investment in capital assets.		5,535
Restricted for:		
Federal programs		21,052
Other purposes		30,622
Unrestricted (deficit).		(55,174)
		2,035
Total net position.	\$	2,035

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating revenues:	
State foundation revenue	\$ 464,359
Sales	39,079
Total operating revenues	<u>503,438</u>
 Operating expenses:	
Salaries and wages.	625
Fringe benefits.	1,096
Purchased services.	518,923
Materials and supplies	22,187
Other.	26,669
Depreciation	615
Total operating expenses.	<u>570,115</u>
 Operating loss	 <u>(66,677)</u>
 Non-operating revenues:	
Grants and subsidies.	101,016
Interest revenue	42
Contributions and donations.	18,559
Total nonoperating revenues	<u>119,617</u>
 Change in net position	 52,940
 Net position (deficit) at beginning of year (restated).	 <u>(50,905)</u>
 Net position at end of year	 <u><u>\$ 2,035</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Cash flows from operating activities:	
Cash received from State foundation	\$ 477,710
Cash received from sales.	39,079
Cash payments for salaries and wages.	(625)
Cash payments for fringe benefits	(921)
Cash payments for contractual services	(481,291)
Cash payments for materials and supplies	(30,060)
Cash payments for other expenses	<u>(30,307)</u>
Net cash used in operating activities	<u>(26,415)</u>
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	84,872
Cash received from contributions and donations	<u>18,559</u>
Net cash provided by noncapital financing activities.	<u>103,431</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(6,150)</u>
Net cash used in capital and related financing activities.	<u>(6,150)</u>
Cash flows from investing activities:	
Interest received	<u>42</u>
Net cash provided by investing activities	<u>42</u>
Net increase in cash and cash equivalents	70,908
Cash and cash equivalents at beginning of year	<u>36,843</u>
Cash and cash equivalents at end of year	<u><u>\$ 107,751</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (66,677)
Adjustments:	
Depreciation	615
Changes in assets and liabilities:	
(Increase) in prepayments.	(3,638)
Decrease in deferred outflows - pensions	341
(Decrease) in accounts payable.	(7,595)
Increase in intergovernmental payable	50,705
(Decrease) in net pension liability.	(2,285)
Increase in deferred inflows - pensions.	<u>2,119</u>
Net cash used in operating activities	<u><u>\$ (26,415)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Beacon Hill Community School, Wayne County, Ohio (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service, that qualifies as an 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 School's tax exempt status. The School's objective is to specifically address the needs of students who have met some academic requirements but have failed to successfully complete all those requirements necessary for the attainment of the high school diploma, or for those wishing to pursue a career or post-secondary study. The ultimate focus of the School's curriculum is to assist its students to earn credits for promotion through grades 7-8 and ultimately in earning a high school diploma while preparing them for higher education and employment opportunities. The School, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Tri-County Educational Service Center (the "Sponsor") for a period of three years commencing July 1, 2011 through June 30, 2014. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Southeast Local School District and the Tri-County Educational Service Center provide teaching and administrative staff to the School on a contract basis. Tri-County Educational Service Center and Beacon Hill have renewed the sponsorship agreement for three years extending the agreement to June 30, 2017.

The School has entered into purchased service agreements with the Southeast Local School District, Tri-County Educational Service Center and Midland Council of Governments to provide various purchased services to the School. Terms of the purchased service agreements are further described in Note 14.

The School operates under the direction of a self-appointed five-member Board of Directors. The Board 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. The Board controls the School's one instructional/support facility which provides services to 78 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School 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 School's significant accounting policies are described below.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

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

B. 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 of resources, and all liabilities and deferred inflows of resources are included on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net 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.

C. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will 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 School, deferred outflows of resources have been reported for the following two items related to the School's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the School's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the statement of net position will 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 School, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the School's net pension liability.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 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.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and cash equivalents

All monies received by the School are deposited into a demand deposit account, savings account and a non-negotiable certificate of deposit (CD). Non-negotiable CDs, are reported at cost.

F. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Amounts restricted for other purposes include amounts restricted for school support and food service operations.

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

G. Intergovernmental Revenue

The School currently participates in the State Foundation Program, the IDEA Part B grant, the Title I grant, and the Title IIA grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2015 school year, excluding all other federal and State grants, totaled \$464,359.

Revenues received from the remaining programs are recognized as non-operating revenues 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State and federal grants revenue for the fiscal year 2015 received was \$101,016.

In addition, the School received \$18,559 in local contributions and donations during fiscal year 2015.

H. Estimates

The preparation of financial statements in conformity with GAAP 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.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of \$5,000. The School 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.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Copier equipment is depreciated over five years.

J. Pensions

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2015, the School has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the School's pension plan disclosures, as presented in Note 12, and added required supplementary information which is presented after the notes to the financial statements.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

A net position restatement is required in order to implement GASB Statement No 68 and 71. Net position at July 1, 2014 has been restated as follows:

Net position as previously reported	\$ (36,603)
Deferred outflows - payments subsequent to measurement date	1,040
Net pension liability	<u>(15,342)</u>
Restated net position at July 1, 2014	<u>\$ (50,905)</u>

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

NOTE 4 - DEPOSITS

At June 30, 2015, the carrying amount of all School deposits, including \$20,000 in non-negotiable CDs was \$107,751. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, the entire bank balance of \$149,287 was covered by the Federal Deposit Insurance Corporation (FDIC).

NOTE 5 - RECEIVABLES

Intergovernmental receivables at June 30, 2015 consisted of \$18,190 in grants related to the IDEA Part-B, the Title I Disadvantaged Children, and Improving Teacher Quality programs. The receivables are expected to be collected in the subsequent year.

NOTE 6 - PURCHASED SERVICES

For fiscal year 2015, purchased services expenses were as follows:

Professional services	\$ 421,117
Property rental and services	79,630
Travel, mileage and meetings	2,138
Communications	15,921
Utilities	48
Contracted food services	<u>69</u>
Total purchased services	<u>\$ 518,923</u>

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2015</u>
Equipment	\$ -	\$ 6,150	\$ -	\$ 6,150
Less: accumulated depreciation	<u>-</u>	<u>(615)</u>	<u>-</u>	<u>(615)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 5,535</u>	<u>\$ -</u>	<u>\$ 5,535</u>

NOTE 8 - RISK MANAGEMENT

The School 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. The School is covered under the insurance policies maintained by the Lighthouse of Hope, the Tri-County Educational Service Center and Southeast Local School District for rental/theft, general liability, contents liability. Beacon Hill also has its own liability and property coverage purchased through Ohio School Plan and Hylant Insurance.

Settled claims did not exceed this commercial coverage in any of the past three years. There have been no significant reductions in coverage from the last year.

NOTE 9 - CONTINGENCIES

A. Grants

The School 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 School at June 30, 2015.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the fiscal year 2014 and 2015 reviews, the School owes ODE \$25,723 and \$9,714, respectively, at June 30, 2015, and has reported the amounts as intergovernmental payables on the statement of net position. In addition, the School owes ODE an additional \$20,786 as a result of an FTE settlement adjustment from prior fiscal years. This amount is reported as an intergovernmental payable on the statement of net position.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 9 – CONTINGENCIES - (Continued)

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 10 - OPERATING LEASE

The School has entered into an operating lease with Lighthouse of Hope for rent of the School's instructional facility located at 10470 Winesburg Road, Dundee, Ohio. The lease calls for an annual rental payment of \$65,000 for the period August 1, 2014 through May 31, 2015, and \$65,000 for the period of August 1, 2015 through May 31, 2016.

NOTE 11 - LONG-TERM OBLIGATIONS

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

	Restated Balance	<u>Additions</u>	<u>Reductions</u>	Balance	Amounts Due in
	<u>June 30, 2014</u>			<u>June 30, 2015</u>	<u>One Year</u>
Net pension liability:	\$ 15,342	\$ -	\$ (2,285)	\$ 13,057	\$ -

Net Pension Liability: See Note 3 and Note 12 for information on the School's net pension liability.

NOTE 12 - 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 School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 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 School's contractually required contribution to SERS was \$588 for fiscal year 2015.

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

	SERS
Proportionate share of the net pension liability	\$ 13,057
Proportion of the net pension liability	0.00025800%
Pension expense	\$ 763

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

	SERS
Deferred outflows of resources	
Differences between expected and actual experience	\$ 111
School contributions subsequent to the measurement date	588
Total deferred outflows of resources	\$ 699
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	\$ 2,119
Total deferred inflows of resources	\$ 2,119

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$588 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

	<u>SERS</u>
Fiscal Year Ending June 30:	
2016	\$ (502)
2017	(502)
2018	(502)
2019	<u>(502)</u>
Total	<u>\$ (2,008)</u>

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 18,629	\$ 13,057	\$ 8,371

NOTE 13 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay 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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The School's contributions for health care for the fiscal years ended June 30, 2015 and 2014 were \$37 and \$10, respectively. The full amount has been contributed for fiscal years 2015 and 2014.

NOTE 14 - PURCHASED SERVICE AGREEMENTS

A. Southeast Local School District

The School entered into a one-year contract on August 1, 2014 with Southeast Local School District (the "District") for general administrative, fiscal and instructional staff services for August 1, 2014 through July 31, 2015. Under this contract, the following terms were agreed upon:

1. The Superintendent of the District shall assign personnel and/or issue contracts as necessary to perform contracted services for the School.
2. The School shall pay the District for instructional staff services as required by the School. The School will be invoiced for the applicable instructional staff time used by the School.
3. The School shall pay in full for any materials and equipment lent or otherwise provided to them by the District within a period of three years from August 15, 2011 or the School agrees to return said materials and equipment in the condition it was received, reasonable wear and tear excepted.
4. The purchased services agreement may be terminated by the School or by the District, effective after the next succeeding 30th day of June, by either party giving the other party written notice thereof on or before the last day of February. The date of such notification may be extended at any time by mutual agreement of the School and the District.

For fiscal year 2015, \$10,580 was paid to the District for general administrative, fiscal and instructional staff services under the agreement. To obtain the District's audited June 30, 2015 financial statements; please contact Mr. Mark Dickerhoof, Treasurer, 9048 Dover Rd., Apple Creek, Ohio 44606.

B. Tri-County Educational Service Center

The School entered into a one-year contract on August 28, 2014 with Tri-County Educational Service Center (the "ESC") for sponsorship oversight and monitoring services and instructional staff services. Under this contract, the following terms were agreed upon:

1. The ESC will perform sponsorship oversight and monitoring services to the School for the fiscal year for a fee equal to 3% of the School's State of Ohio Foundation Settlement distribution.
2. The School shall pay the ESC for instructional staff services as required by the School. The School will be invoiced for the applicable instructional staff time used by the School.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 14 - PURCHASED SERVICE AGREEMENTS - (Continued)

3. The purchased services agreement for fiscal year 2015 is non-cancellable. Both the School and the ESC agree to provide the other party with notification in writing prior to March 15, 2013 of any change in the services to be purchased for the term commencing July 1, 2015 through June 30, 2016.

For fiscal year 2015, \$361,992 was paid to the ESC for sponsorship oversight and monitoring services and instructional staff services under the agreement. To obtain the ESC's audited June 30, 2015 financial statements; please contact Ms. Mary Workman, Treasurer, 741 Winkler Rd, Wooster, Ohio 44691.

C. Midland Council of Governments

The School entered into a one-year contract with the Midland Council of Governments (the "COG") for internet access service. Under this contract, the following terms were agreed upon:

1. The COG will provide internet access services including, but not limited to, bandwidth, equipment, e-mail services, and web page hosting to the School for fiscal year 2015. Title to all internet equipment remains with the COG.

For fiscal year 2015, \$22,831 was paid to the COG for internet access services under the agreement.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST FISCAL YEAR

	<u>2014</u>
School's proportion of the net pension liability	0.00025800%
School's proportionate share of the net pension liability	\$ 13,057
School's covered-employee payroll	\$ 7,504
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.00%
Plan fiduciary net position as a percentage of the total pension liability	71.70%

Note: Information prior to fiscal year 2014 is not applicable.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST TWO FISCAL YEARS

	2015	2014
Contractually required contribution	\$ 588	\$ 1,040
Contributions in relation to the contractually required contribution	(588)	(1,040)
Contribution deficiency (excess)	\$ -	\$ -
School's covered-employee payroll	\$ 4,461	\$ 7,504
Contributions as a percentage of covered-employee payroll	13.18%	13.86%

Note: Information prior to fiscal year 2014 is not applicable.

**BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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Dave Yost • Auditor of State

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

Beacon Hill Community School
Wayne County
161 South Main Street
Creston, Ohio 44217

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 Beacon Hill Community School, Wayne County, Ohio, (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 30, 2016, wherein we noted the School adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement 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 the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School'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 initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

March 30, 2016

BEACON HILL COMMUNITY SCHOOL
WAYNE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2015

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

FINDING NUMBER 2015-001

Material Weakness

Financial Statement Presentation

The compilation and presentation of materially correct financial statements and related footnotes is the responsibility of management of the School. This responsibility remains intact, even if management outsources this function for efficiency purposes, or any other reason, to another accountant or consultant. It is also important to note that the accountant or consultant are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes prior to audit.

Intergovernmental payables of \$16,568 relating to services provided during fiscal year 2015, but not paid until fiscal year 2016, were not included in the intergovernmental payables as originally presented in the Schools' financial statements. This adjustment was posted to the Schools financial statements.

Errors to the financial statements do not allow management to properly review and monitor the School's activities.

We recommend the School implement sufficient control procedures over the financial reporting process in order to enable management to prevent and detect potential misstatements in the financial statements and footnotes.

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

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Dave Yost • Auditor of State

BEACON HILL COMMUNITY SCHOOL

WAYNE 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 28, 2016**