

Beacon Academy  
Stark County, Ohio

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2017





# Dave Yost • Auditor of State

Board of Directors  
Beacon Academy  
3320 West Market Street, Suite 300  
Fairlawn, Ohio

We have reviewed the *Independent Auditor's Report* of the Beacon Academy, Summit County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

March 27, 2018

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**BEACON ACADEMY  
STARK COUNTY**

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January 31, 2018

To the Board of Directors  
Beacon Academy  
Stark County, Ohio  
1379 Garfield Ave. SW  
Canton, Ohio 44707

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the Beacon Academy, Stark County, Ohio, (the "School") as of and for the year ended June 30, 2017, 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 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 entity'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 entity'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 School, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As disclosed in Note 14 to the financial statements, the School has suffered losses from operations and has a net position deficiency of \$63,880 that raises substantial doubt regarding the School's ability to continue as a going concern. This deficiency of net position includes the effect of the GASB 68 related accruals reducing expenses by \$79,630. Note 14 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to 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 *Schedule of School Contributions* on pages 4-8, and 27-28, respectively, 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 January 31, 2018 on our consideration of the School's internal control over financial reporting and on 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 the effectiveness of the School's 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.

*Rea & Associates, Inc.*

Cambridge, Ohio



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**BEACON ACADEMY  
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their **Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments** issued June 1999. Since this is the first year of operation for the School, comparative information is unavailable and will be presented next fiscal year.

**Financial Highlights**

- Fiscal year 2017 was the School's first year of operations.
- In total, net position decreased \$63,880. This increase is due to total expenses exceeding total revenues.
- Total assets were \$88,176 for the first year of operations.
- Total liabilities were \$231,686 for the first year of operations.
- Total deferred outflows were \$79,630 for 2017.

As part of first year operations, 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 subtracting deferred outflows related to pension from the reported net position.

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 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 ACADEMY  
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Financial Highlights (continued)**

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.

Due to the School not being in operation during the measurement period for GASB 68 (fiscal year 2016), the School is only reporting a deferred outflow of resources for the contributions subsequent to the measurement date.

**Using this Financial Report**

This report consists of three parts, the Required Supplementary Information, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

**BEACON ACADEMY  
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Statement of Net Position**

The statement of net position answers the question of how well the School performed financially during 2017. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's net position for fiscal year 2017. In future years, a comparison will be made to previous year.

(Table 1)

**Statement of Net Position**

	2017
<b>Assets</b>	
Current Assets	\$ 88,176
Total Assets	88,176
<b>Deferred Outflow of Resources</b>	
Pension System	79,630
<b>Liabilities</b>	
Current Liabilities	231,686
Total Liabilities	231,686
<b>Net Position</b>	
Unrestricted	(63,880)
Total Net Position	\$ (63,880)

Total assets were \$88,176 for the first year of operations. This was due to an ending balance in cash and cash equivalents, as well as federal grants receivable, state foundation receivable and intergovernmental receivable, for 2017. Ending liabilities were \$231,686 for the first year of operations. This was due in large part to accounts payable and purchased services: accrued wages and benefits for 2017. Ending deferred outflows were \$79,630 for 2017. This change represents contractually required amounts due to GASB 68. The changes in deferred outflows of resources were impacted by the implementation of GASB 68. The School operates under a management agreement with The Educational Empowerment Group, LLC (see notes to the financial statements, note 8).

**BEACON ACADEMY  
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Statement of Revenues, Expenses, and Changes in Net Position**

Table 2 shows the changes in net position for fiscal year 2017, as well as a listing of revenues and expenses. In future years, a comparison will be made to the previous year.

(Table 2)  
**Change in Net Position**

	<u>2017</u>
<b>Operating Revenue</b>	
State basic aid	\$ 1,356,803
Facilities aid	32,142
Miscellaneous	1,000
Casino	<u>3,984</u>
<b>Non-Operating Revenues</b>	
Grants	<u>308,463</u>
Total Revenues	<u>1,702,392</u>
<b>Operating Expenses</b>	
Board compensation	3,000
School employee retirement	303
Purchased services	1,656,883
Materials and supplies	84,654
Other expenses	<u>21,432</u>
Total Expenses	<u>1,766,272</u>
Change in Net Position	<u>\$ (63,880)</u>

Revenues received in 2017, the first full year of operations, were due to the School's State aid based on full-time equivalency (FTE) enrollment. The Schools' most significant expense was "Purchased services" which mainly consisted of management fees paid pursuant to the management agreement in place between the School and The Educational Empowerment Group, LLC (EEG). The agreement provides that specific percentages of the revenues received by the School will be paid to EEG to fund operations (See notes to the basic financial statements, note 8).

**BEACON ACADEMY  
STARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Capital Assets**

At the end of fiscal year 2017, the School had no capital assets.

**Current Financial Issues**

Beacon Academy received revenue for 161 students in 2017. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$8,652 in fiscal year 2017. The School receives additional revenues from grant subsidies.

Although there is a possibility that state aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change. The relationship brings stability to the School since specific percentages of revenues are payable to the management company (See notes to the basic financial statements, note 8).

**Contacting the School's Financial Management**

This financial report is designed to provide our readers 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 information, contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

**BEACON ACADEMY  
STARK COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

**ASSETS**

Current Assets

Cash & cash equivalents	\$ 7,404
Federal grant funding receivable	53,602
State foundation receivable	16,595
Intergovernmental receivable	10,575
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Total current assets	<hr/> 88,176
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<b>Total assets</b>	<hr/> <b>88,176</b>
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**DEFERRED OUTFLOWS OF RESOURCES**

Pension system	<hr/> 79,630
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**LIABILITIES**

Current liabilities

Accounts payable	128,653
Purchased services: accrued wages and benefits	103,033
	<hr/>

Total current liabilities	<hr/> 231,686
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<b>Total liabilities</b>	<hr/> <b>231,686</b>
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**NET POSITION**

Unrestricted net position	<hr/> (63,880)
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<b>Total net position</b>	<hr/> <b>\$ (63,880)</b> <hr/>
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The accompanying notes to the financial statements are an integral part of this statement.

**BEACON ACADEMY  
STARK COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017**

**OPERATING REVENUES**

State basic aid	\$ 1,356,803
Facilities aid	32,142
Miscellaneous	1,000
Casino	3,984
	<hr/>
<b>Total operating revenues</b>	<b>1,393,929</b>

**OPERATING EXPENSES**

Board compensation	3,000
School employee retirement	303
Purchased services	1,656,883
Supplies and materials	84,654
Other	21,432
	<hr/>
<b>Total operating expenses</b>	<b>1,766,272</b>
<b>Operating loss</b>	<b>(372,343)</b>

**NON-OPERATING REVENUES**

Federal grants	308,463
	<hr/>
<b>Total non-operating revenues</b>	<b>308,463</b>
<b>Change in net position</b>	<b>(63,880)</b>
<b>Net position, July 1, 2016</b>	<b>-</b>
	<hr/>
<b>Net position, June 30, 2017</b>	<b>\$ (63,880)</b>

The accompanying notes to the financial statements are an integral part of this statement.



**BEACON ACADEMY  
STARK COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from state aid	\$ 1,366,759
Cash payments to suppliers for goods and services	(1,611,216)
Cash payments for board compensation	(3,000)
	(247,457)
Net cash used for operating activities	(247,457)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash received from grant programs	254,861
	254,861
Net cash received from noncapital financing activities	254,861
Net increase in cash and cash equivalents	7,404
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	\$ 7,404

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED FOR OPERATING ACTIVITIES**

Operating loss	\$ (372,343)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Changes in assets, liabilities, and deferred outflows/inflows of resources:	
Intergovernmental receivable	(10,575)
State foundation receivable	(16,595)
Pension deferred outflows	(79,630)
Accounts payable	128,653
Accrued wages and benefits	103,033
	124,886
Total adjustments	124,886
Net cash used for operating activities	\$ (247,457)

The accompanying notes to the financial statements are an integral part of this statement.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Beacon Academy (the School) is a federal tax exempt 501(c)(3) and state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Educational Empowerment Group, LLC (EEG, LLC) for most of its functions (see note 8).

The School began operations at the beginning of the 2016-2017 school year. The School signed a contract with The Educational Resource Consultants of Ohio, Inc. (ERCO) (Sponsor) to operate for a period from July 1, 2016 through June 30, 2020. The School operates under a self-appointing, six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, 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 School has one instructional/support facility, which is leased by EEG, LLC. The facility is staffed with teaching personnel employed by EEG, LLC, who provide services to 161 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School's financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in Net Position, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources as well as all liabilities are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in Net Position. 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. 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 Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2017. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

**D. Cash and Cash Equivalents**

All cash received by the School is maintained in a demand deposit account.

**E. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, facilities aid, and casino tax distributions, which are reflected under "Operating revenues" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which 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. Amounts awarded under the above programs for the 2017 school year totaled \$1,701,392.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Capital Assets and Depreciation**

As of June 30, 2017, the School had no capital assets.

**G. Use of Estimates**

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets, deferred outflows of resources, liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**H. Net Position**

Net Position represents the difference between assets and deferred outflows of resources, and liabilities. Net Position consists entirely of unrestricted.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily state aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**J. Pensions**

For purposes of measuring the net pension liability, deferred outflows 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.

**K. Deferred Outflows of Resources**

In addition to assets, the statements of the financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**3. DEPOSITS**

As of June 30, 2017, the carrying amount of all School deposits was \$7,404. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, none of the School's bank balance of \$7,404 was exposed to custodial risk as discussed below, since all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

**4. GRANTS FUNDING RECEIVABLE**

The School has recorded "Federal grant funding receivable" in the amount of \$53,602 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2017.

**5. RISK MANAGEMENT**

**Property and Liability** - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with EEG, LLC, EEG, LLC has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see note 8). Settled claims have not exceeded this coverage in the past, nor has there been any significant reduction in insurance coverage during the year.

**Director and Officer** - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$5,000 deductible.

**6. AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP, LLC**

Effective July 1, 2016, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The term of the Agreement with EEG, LLC is for 3 years and will renew for additional, successive three (3) year terms unless one party notifies the other party no later than six months prior to the term expiration date of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to EEG, LLC. EEG, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay EEG, LLC a monthly continuing fee of 15 percent of the School's "Qualified gross revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions. The continuing fee is paid to EEG, LLC based on the qualified gross revenues.

The School had purchased services for the year ended June 30, 2017, to EEG, LLC, of \$1,092,102 and a payable of \$182,901 made up of both Accounts payable and Purchased services: accrued wages and benefits to EEG, LLC. EEG, LLC will be responsible for procuring the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance which are then invoiced to the school or reimbursed to EEG, LLC.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**7. SPONSORSHIP FEES**

Under Paragraph D(2.1) of the sponsor contract with ERCO, it states that the School "...shall pay to the Sponsor, the amount of three percent (3%) of all state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Sponsor pursuant to this contract." Such fees are paid to the ERCO monthly. As indicated on the statement of revenues, expenses, and changes in Net Position, the School incurred \$40,206 in sponsorship fees to ERCO.

**8. PURCHASED SERVICES**

For the year ended June 30, 2017, purchased service expenses were as follows:

<u>Purchased Services</u>	<u>Amount</u>
<b>Direct Expense:</b>	
Personnel services	\$ 946,615
Professional services	352,682
Building services	206,897
Food service	110,483
Sponsor services	40,206
<b>Total</b>	<u>\$ 1,656,883</u>

**9. DEFINED BENEFIT PENSION PLANS**

**A. Net Pension Liability**

For fiscal year 2017, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. The net pension liability is not reported in the accompanying financial statements due to the School not being in operation during the measurement period. The plan description and actuarial have been disclosed below.

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 ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

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

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

The 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 Purchased services: accrued wages and benefits on the accrual basis of accounting.

**B. 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 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 ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

**C. Plan Description – State Teachers Retirement System (STRS)**

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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The School's contractually required contribution to SERS was \$12,236 for fiscal year 2017.

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service.

Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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



**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

**C. Plan Description – State Teachers Retirement System (STRS) (continued)**

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$67,394 for fiscal year 2017.

**D. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources (with the exception of deferred outflows of resources related to School contributions subsequent to the measurement date) and Deferred Inflows of Resources Related to Pensions are not applicable to the School at June 30, 2017 due to the School not being in operation during the measurement period.

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

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
School District contributions subsequent to the measurement date	12,236	67,394	79,630
Total Deferred Outflows of Resources	\$ 12,236	\$ 67,394	\$ 79,630

\$79,630 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 fiscal year ending June 30, 2018.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

**E. Actuarial Assumptions – SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

**E. Actuarial Assumptions – SERS (continued)**

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

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, 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.

**F. Actuarial Assumptions – STRS**

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

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

**F. Actuarial Assumptions – STRS (continued)**

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	 <u>7.61 %</u>

\*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (continued)**

**F. Actuarial Assumptions – STRS (continued)**

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

**10. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System (SERS)**

**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](http://www.ohsers.org) under Employers/Audit Resources.

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

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required 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 2017, SERS did not allocate any employer contributions to the Health Care fund. 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 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School's surcharge obligation was \$0.

For fiscal year 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care for the fiscal year was \$0.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**10. POSTEMPLOYMENT BENEFITS (continued)**

**B. State Teachers Retirement System**

Plan Description – The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) 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 reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to health care in the 2017 fiscal year.

**11. CONTINGENCIES**

**A. Grants**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such any such adjustments will not have a material adverse effect on the financial position of the School.

**B. Enrollment FTE**

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 2017.

As of the date of this report, all ODE adjustments through fiscal year 2017 have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2017 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**11. CONTINGENCIES (continued)**

**C. Litigation**

The School is not party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

**12. RECEIVABLES**

Receivables at June 30, 2017 consisted of federal grants, state foundation and intergovernmental receivables arising from grants, entitlements, and accounts receivable from miscellaneous governments. All receivables are considered collectible in full. A summary of intergovernmental receivables follows:

<b>Funding Source</b>	<b>Amount</b>
Federal Grants:	
Food Service	\$ 34,945
Title II-A	18,657
Total Federal Grants Receivable	<u>\$ 53,602</u>
Foundation Revenues:	
JV 39 Adjustment	16,595
Total Foundation Revenue Receivable	<u>\$ 16,595</u>
Intergovernmental Receivable:	
SERS/STRS Overpayment	10,575
Total Intergovernmental Receivable	<u>\$ 10,575</u>

**13. MANAGEMENT COMPANY EXPENSES**

As of June 30, 2017, Educational Empowerment, LLC and its affiliates incurred the following expenses on behalf of the School:

	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
<i>Direct expenses:</i>					
Salaries & wages (100 object codes)	394,525	52,145	159,973	111,349	717,991
Employees' benefits (200 object codes)	57,884	15,360	29,967	28,041	131,252
Property services (420 object codes)				10,341	10,341
Utilities (450 object codes)				8,581	8,581
Supplies (550 object codes)	32,302				32,302
Other direct costs (All other object codes)				17,365	17,365
<i>Indirect expenses:</i>					
Overhead				209,109	209,109
<b>Total expenses</b>	<b>\$ 484,711</b>	<b>\$ 67,505</b>	<b>\$ 189,940</b>	<b>\$ 384,786</b>	<b>\$ 1,126,942</b>

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, marketing and communications.

**BEACON ACADEMY  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Continued)**

**14. MANAGEMENT'S PLAN REGARDING DEFICIT NET POSITION**

For the fiscal year 2017, the school had an operating loss for \$372,343 and a negative net position of \$63,880.

Management continues to take steps towards increasing student enrollment and containing costs, which would provide additional State funding and reduce expenses respectively, enabling the school to return to financial stability.



**BEACON ACADEMY  
STARK COUNTY**

*Required Supplementary Information  
Schedule of the School's Contributions  
School Employees Retirement System of Ohio  
Current Fiscal Year (1)*

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	<u>2017</u>
<b>School Employees Retirement System (SERS)</b>	
Contractually Required Contribution	\$ 12,236
Contributions in Relation to the Contractually Required Contribution	<u>(12,236)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
School Covered-Employee Payroll	\$ 87,400
Contributions as a Percentage of Covered-Employee Payroll	14.00%

(1) Information prior to 2017 is not available

**BEACON ACADEMY  
STARK COUNTY**

*Required Supplementary Information  
Schedule of the School's Contributions  
State Teachers Retirement System of Ohio  
Current Fiscal Year (1)*

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	<u>2017</u>
<b><i>State Teachers Retirement System (STRS)</i></b>	
Contractually Required Contribution	\$ 67,394
Contributions in Relation to the Contractually Required Contribution	<u>(67,394)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
School Covered-Employee Payroll	\$ 481,386
Contributions as a Percentage of Covered-Employee Payroll	14.00%

(1) Information prior to 2017 is not available

January 31, 2018

To the Board of Directors  
Beacon Academy  
Stark County, Ohio  
1379 Garfield Ave. SW  
Canton, Ohio 44707

**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***

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 Beacon Academy, Stark County, Ohio (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 31, 2018, in which we noted the School had a deficit net position balance of \$63,880, including the net effect of the GASB 68 related accruals totaling \$79,630 that raises substantial doubt about the ability to continue as a going concern.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Rea & Associates, Inc.*

Cambridge, Ohio

January 31, 2018

To the Board of Directors and School's Sponsor  
Beacon Academy  
Stark County  
1379 Garfield Ave. S.W.  
Canton, Ohio 44707

### **Independent Accountant's Report on Applying Agreed-Upon Procedure**

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Beacon Academy, Stark County, Ohio has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted its anti-harassment policy in accordance with Section 3313.666 of the Revised Code.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*

Cambridge, Ohio

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# Dave Yost • Auditor of State

**BEACON ACADEMY**

**STARK 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 10, 2018**