



Dave Yost • Auditor of State

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Mahoning County High School
Mahoning County
940 Bryn Mawr Avenue
Youngstown, Ohio 44505

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Mahoning County High School, Mahoning 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of 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 respective financial position of the Mahoning County High School, Mahoning County as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As referenced in Note 14 to the financial statements, the School has suffered recurring losses from operations and has a net position deficiency. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

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 January 21, 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.

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

Dave Yost
Auditor of State
Columbus, Ohio

January 21, 2016

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**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

The management's discussion and analysis of Mahoning County High School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- During 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27", which significantly revises accounting for pension costs and liabilities, thus resulting in the restatement of net position from the previously reported (\$160,893) to \$(568,407). This liability is a present value estimate of the School's future net cash flows needed to fund future pension costs associated with the employment of current and past employees, whom participate in Ohio statewide pension systems. See pages 4-5 for further discussion of this statement.
- In total, net position was deficit of \$572,008, which represents a \$3,601 decrease from 2014.
- The School had operating revenues of \$698,114 and operating expenses of \$849,174 for fiscal year 2015. The School also received \$147,446 in Federal and State grants and \$13 in interest income during fiscal year 2015.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *statement of net position* and *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 the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2015?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. 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 changes in that 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 11 and 12 of this report.

The statement of cash flows provides information about how the School finances and is meeting the cash flow needs of its operations. The statement of cash flows can be found on page 13 of this report.

**MAHONING COUNTY HIGH SCHOOL
MAHONING 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 for fiscal years 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3 of the notes to the basic financial statements.

Net Position

	2015	Restated 2014
<u>Assets</u>		
Current assets	\$ 48,479	\$ 42,569
Capital assets, net	3,604	6,798
Total assets	52,083	49,367
<u>Deferred outflows of resources</u>	24,774	29,556
<u>Liabilities</u>		
Current liabilities	216,512	210,260
Long-term liabilities:		
Net pension liability	371,947	437,070
Total liabilities	588,459	647,330
<u>Deferred inflows of resources</u>	60,406	-
<u>Net position</u>		
Net investment in capital assets	3,604	6,798
Restricted	13,099	6,386
Unrestricted (deficit)	(588,711)	(581,591)
Total net position	\$ (572,008)	\$ (568,407)

During 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.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

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

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 \$(160,893) to \$(568,407).

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 deficit of \$572,008.

Current assets at June 30, 2015 consist of cash and cash equivalents, intergovernmental grants receivable and prepayments. At year-end, capital assets represented 6.92% and 13.77% of total assets for fiscal years 2015 and 2014, respectively. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

Current liabilities for the School consist of accounts and intergovernmental payables, which are primarily amounts owed to the School's sponsor, the Mahoning County Educational Service Center.

A portion of the School's net position, \$13,099, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of 588,711.

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	\$ 694,830	\$ 763,382
Other operating revenues	<u>3,284</u>	<u>390</u>
Total operating revenue	<u>698,114</u>	<u>763,772</u>
<u>Operating expenses:</u>		
Personal services	31,733	29,028
Purchased services	741,333	964,023
Materials and supplies	28,250	42,261
Other	44,664	56,461
Depreciation	<u>3,194</u>	<u>6,655</u>
Total operating expenses	<u>849,174</u>	<u>1,098,428</u>
<u>Non-operating revenues:</u>		
Federal and State grants	147,446	132,793
Interest income	<u>13</u>	<u>24</u>
Total non-operating revenues	<u>147,459</u>	<u>132,817</u>
Change in net position	(3,601)	(201,839)
Net position (deficit) at beginning of year (restated)	<u>(568,407)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (572,008)</u>	<u>\$ (568,407)</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 expenses still include pension expense of \$29,556 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 \$21,672.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

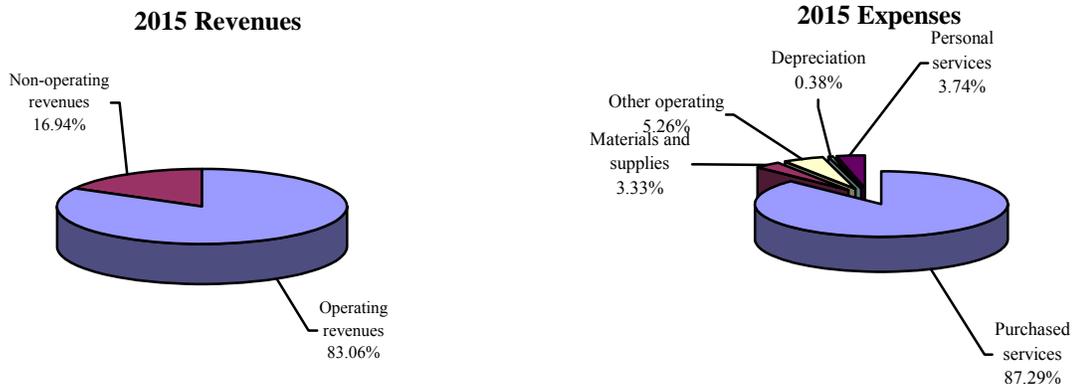
Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 expenses under GASB 68	\$ 849,174
Pension expense under GASB 68	(21,672)
2015 contractually required contributions	<u>21,607</u>
Adjusted 2015 expenses	849,109
Total 2014 expenses under GASB 27	<u>1,098,428</u>
Decrease in expenses not related to pension	<u>\$ (249,319)</u>

As the preceding table illustrates, the School's primary source of revenue is State Foundation revenue, which is allocated to schools throughout the State based on Full Time Equivalent (FTE) students reported by the schools. The School's Foundation revenue decreased \$68,552 in 2015. Foundation revenue accounted for 82.67% of total revenues for fiscal year 2015. The only other significant revenue source in 2015 was Federal and State grants, which are reported as non-operating revenues. For fiscal year 2015, these consist primarily of Federal grants for the Title I and Special Education programs.

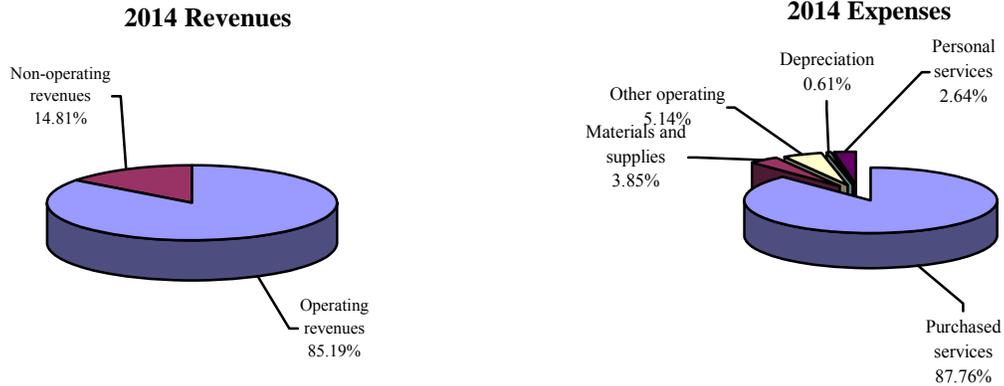
Expenses once again exceeded revenues and the School experienced a decrease in net position. The School's most significant expenses are for purchased services. These expenses are primarily payments to the School's Sponsor. The Sponsor, under the Sponsorship Contract, provides planning, instructional, administrative and technical services to the School. In addition, the Sponsor provides personnel services to the School under a purchased services basis. Payments to the Sponsor in fiscal year 2015 totaled \$548,871.

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



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



Capital Assets

At June 30, 2015, the School had \$3,604 invested in furniture and equipment, net of accumulated depreciation. See Note 6 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The School relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate the school. The School has committed itself to providing educational opportunities to students. Management will aggressively pursue adequate funding to secure the financial stability of the School.

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. Blaise Karlovic, Treasurer, Mahoning County High School, 940 Bryn Mawr Avenue, Youngstown, Ohio 44505.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2015

Assets:	
Current assets:	
Cash and cash equivalents	\$ 42,106
Receivables:	
Intergovernmental	5,255
Prepayments	<u>1,118</u>
Total current assets	<u>48,479</u>
Non-current assets:	
Depreciable capital assets, net	<u>3,604</u>
Total assets	<u>52,083</u>
Deferred outflows of resources:	
Pension - STRS	654
Pension - SERS	24,120
Total deferred outflows of resources	<u>24,774</u>
Liabilities:	
Current liabilities:	
Accounts payable	31,434
Intergovernmental payable	<u>185,078</u>
Total current liabilities	<u>216,512</u>
Non-current liabilities:	
Net pension liability (see Note 12)	<u>371,947</u>
Total non-current liabilities	<u>371,947</u>
Total liabilities	<u>588,459</u>
Deferred inflows of resources:	
Pension - STRS	312
Pension - SERS	<u>60,094</u>
Total deferred inflows of resources	<u>60,406</u>
Net position:	
Investment in capital assets	3,604
Restricted for:	
Locally funded programs	512
State programs	5,926
Federal programs	6,661
Unrestricted (deficit)	<u>(588,711)</u>
Total net position	<u>\$ (572,008)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

Operating revenues:	
State Foundation	\$ 694,830
Other operating revenues.	3,284
Total operating revenues	<u>698,114</u>
 Operating expenses:	
Personal services	31,733
Purchased services.	741,333
Materials and supplies	28,250
Other operating expenses.	44,664
Depreciation	3,194
Total operating expenses	<u>849,174</u>
 Operating loss.	 <u>(151,060)</u>
 Non-operating revenues:	
Federal and State grants	147,446
Interest income	13
Total nonoperating revenues.	<u>147,459</u>
 Change in net position.	 (3,601)
 Net position (deficit) at beginning of year (restated) . . .	 <u>(568,407)</u>
Net position (deficit) at end of year	<u>\$ (572,008)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from State Foundation	\$ 694,046
Cash received from other operations	3,284
Cash payments for personal services	(31,667)
Cash payments to suppliers for goods and services.	(724,917)
Cash payments for materials and supplies	(39,080)
Cash payments for other expenses	(43,273)
	<u>(141,607)</u>
 Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	153,537
	<u>153,537</u>
 Cash flows from investing activities:	
Interest received.	13
	<u>13</u>
Net cash provided by investing activities	13
Net increase in cash and cash equivalents	11,943
Cash and cash equivalents at beginning of year.	30,163
Cash and cash equivalents at end of year	\$ 42,106
	<u><u>42,106</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (151,060)
Adjustments:	
Depreciation	3,194
Changes in assets and liabilities:	
(Increase) in prepayments	(58)
Increase in accounts payable.	31,434
(Decrease) in intergovernmental payable	(25,182)
Decrease in deferred outflows, pensions	4,782
(Decrease) in net pension liability.	(65,123)
Increase in deferred inflows, pensions.	60,406
	<u>60,406</u>
Net cash used in operating activities	\$ (141,607)
	<u><u>(141,607)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

Mahoning County High School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's objective is to meet the individual learning needs of at-risk students and/or students who are likely to drop out. The School targets students at risk of severe academic failure, primarily as a result of legal proceedings in the Mahoning County Juvenile Justice system. 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 is a legally separate, start-up community school, served by a five person Board of Directors. The Board of Directors shall be responsible for helping create, approve, and monitor the annual budget of the School, developing policies to guide the operation of the School, secure funding for the School, and maintaining a commitment to the vision, mission and belief statements of the School and the children it serves. The Treasurer of the Mahoning County Educational Service Center (the "Mahoning County ESC") acts as fiscal officer for the School.

The Mahoning County ESC sponsored the School during fiscal year 2015 (See Note 9.A). The Area Cooperative Computerized Educational Service System (ACCESS), under a purchased services contract with the School, provides internet, e-mail and other services to the School (See Note 9.B). Personnel providing services to the School on behalf of the Mahoning County ESC are considered employees of the ESC and the ESC shall be solely responsible for all payroll functions. The School provides services to 127 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.

A. Basis of Presentation

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 or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

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

B. Measurement Focus and Basis of Accounting

Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net 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 used 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 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 Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires the School to submit a financial plan detailing an estimated school budget for each fiscal year of the contract, or five years, whichever is less.

E. Cash and Cash Equivalents

All funds of the School are maintained in demand depository accounts. These depository accounts are presented on the statement of net position as "cash and cash equivalents".

F. Prepayments

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepayments on the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

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

G. Capital Assets and Depreciation

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure. 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. Equipment is depreciated over five to ten years.

H. Net Position

Net position represents the difference between assets and liabilities. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

I. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Other grants and entitlements 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 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.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

J. 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.

**MAHONING COUNTY HIGH SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

K. 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 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles/Restatement of Net Position

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 to the financial statements, and added required supplementary information which is presented on pages after the notes to the basic 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.

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	\$ (160,893)
Deferred outflows - payments	
subsequent to measurement date	29,556
Net pension liability	<u>(437,070)</u>
 Restated net position at July 1, 2014	 <u>\$ (568,407)</u>

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 was \$42,106. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2015, all of the School’s bank balance of \$42,106 was covered by the Federal Deposit Insurance Corporation (FDIC).

NOTE 5 - RECEIVABLES

Receivables at June 30, 2015, consist of intergovernmental receivables for the School’s Title I and Improving Teacher Quality grant program. All receivables are considered collectible in full and are expected to be collected within the subsequent year.

NOTE 6 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Furniture and equipment	\$ 45,736	\$ -	\$ -	\$ 45,736
Less: accumulated depreciation	<u>(38,938)</u>	<u>(3,194)</u>	<u>-</u>	<u>(42,132)</u>
Capital assets, net	<u>\$ 6,798</u>	<u>\$ (3,194)</u>	<u>\$ -</u>	<u>\$ 3,604</u>

NOTE 7 - 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 contracted personnel; and natural disasters. For fiscal year 2015, the School contracted with Argonaut Insurance Company for general liability insurance with a \$1,000,000 limit for each occurrence and a \$2,000,000 annual aggregate limit. The School contracted with Argonaut Insurance Company for commercial property insurance with a coverage limit of \$2,000,000, subject to a \$1,000 deductible.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2015, purchased service expenses were as follows:

Professional and technical services	\$ 682,836
Property services	6,903
Communications	1,132
Utilities services	13,832
Contracted services	16,845
Pupil transportation services	<u>19,785</u>
Total	<u>\$ 741,333</u>

**MAHONING COUNTY HIGH SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 9 - CONTRACTS

A. Mahoning County ESC

The School entered into a sponsorship contract with Mahoning County ESC (the “ESC”) effective April 1, 2008. Under the terms of the agreement, the ESC shall carry out the responsibilities established by law, including the following:

- Monitor and evaluate the academic and fiscal performance and the organization and operation of the School on at least a semi-annual basis;
- Report on an annual basis the results of the evaluation conducted to the Department of Education and to the parents/guardians of students enrolled in the School;
- Provide technical assistance and monitor the School’s compliance with all laws applicable to the School and with the terms of the contract;
- Take steps to intervene in the School’s operation to correct problems in the School’s overall performance, declare the School to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the ESC;
- Establish a plan of action to be undertaken if the School experiences financial difficulties or closes before the end of the school year;
- Act as fiscal agent of the School and provide the services of a qualified individual who shall, as an employee or contractor of the ESC, serve as the School’s fiscal officer; and
- Support the School’s establishment and operation, as determined to be appropriate by the ESC in the ESC’s sole discretion.

The School also entered into a service agreement with the ESC, valid for one year that commenced on September 1, 2009 and thereafter shall be automatically renewed for successive one year terms until the agreement is terminated. This contract outlined the services that would be provided to the School, which include fiscal, payroll, administrative, and teaching services. The School’s payments to the ESC for the period July 1, 2014 through June 30, 2015, were as follows:

Instructional	\$ 242,279
Student and staff support	60,408
Administrative	218,389
Fiscal	<u>27,795</u>
Total	<u>\$ 548,871</u>

**MAHONING COUNTY HIGH SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 9 - CONTRACTS - (Continued)

B. Area Cooperative Computerized Educational Service System (ACCESS)

The School entered into a one-year agreement commencing on July 1, 2013 and ending June 30, 2014, with ACCESS for internet access, electronic mail, Ohio Uniform School Accounting System (USAS), the Uniform Staff Payroll System (USPS), Educational Management Information System (EMIS), Student Information System (SIS/POISE) to include student grade reporting, attendance and scheduling and INFOhio Automated library services. Separate and apart from this agreement, the School agrees to obtain at its own expense, the additional computer and electronic equipment necessary for receipt of these services at the School's facilities. The School paid ACCESS \$4,679 for services during the contract period.

NOTE 10 - OPERATING LEASE

The School entered into a lease agreement on January 1, 2014, with the Youngstown City School District (the "District") to lease land and a building for the School. The lease shall continue through June 30, 2017, unless sooner terminated by either party upon giving at least sixty days written notice. The School shall pay the District one dollar for the term.

The School shall pay for the entire cost of utilities and services including telephone, electricity, natural gas, refuse collection, snow removal, water and sewage, and the security system. Fire alarm, sprinkler and elevator service contracts are paid at 50 percent. The School shall pay for all custodial, maintenance and repair costs. The School shall pay the first \$2,000 of each occurrence of any item of maintenance or repair of any nature in the premises. For each occurrence of any item of maintenance or repair the cost of which exceeds \$2,000, the District shall pay two thirds of the excess cost over \$2,000 and the School shall pay the remainder. However, if any occurrence of any item of maintenance or repair is estimated to cost more than \$5,000, the District may determine that the maintenance or repair shall not be made and that instead the lease shall be terminated by the District to the early termination provisions.

NOTE 11 - 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 of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2015, if applicable, cannot be determined at this time.

B. Litigation

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

**MAHONING COUNTY HIGH SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 11 – CONTINGENCIES - (Continued)

C. School District Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School

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.

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.

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District 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 \$20,969 for fiscal year 2015.

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$638 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 370,259	\$ 1,688	\$ 371,947
Proportion of the net pension liability	0.00731600%	0.00000694%	
Pension expense	\$ 21,607	\$ 65	\$ 21,672

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 3,151	\$ 16	\$ 3,167
District contributions subsequent to the measurement date	<u>20,969</u>	<u>638</u>	<u>21,607</u>
Total deferred outflows of resources	<u>\$ 24,120</u>	<u>\$ 654</u>	<u>\$ 24,774</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 60,094</u>	<u>\$ 312</u>	<u>\$ 60,406</u>

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$21,607 reported as deferred outflows of resources related to pension resulting from the School's 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>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$ (14,236)	\$ (74)	\$ (14,310)
2017	(14,236)	(74)	(14,310)
2018	(14,236)	(74)	(14,310)
2019	<u>(14,235)</u>	<u>(74)</u>	<u>(14,309)</u>
Total	<u>\$ (56,943)</u>	<u>\$ (296)</u>	<u>\$ (57,239)</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.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. 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><u>100.00 %</u></u>	

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Sensitivity of the 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	\$ 528,249	\$ 370,259	\$ 237,375

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's proportionate share of the net pension liability	\$ 2,417	\$ 1,688	\$ 1,072

**MAHONING COUNTY HIGH SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. 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.

The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$1,305, \$295, and \$185, respectively; 100 percent has been contributed for all three years.

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 or by calling (888) 227-7877.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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 year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$7, and \$171 respectively; 100 percent has been contributed for all three years.

NOTE 14 - MANAGEMENT PLAN

As of June 30, 2015, the School had a deficit net position of \$572,008. The deficit net position was primarily a result of reporting the net pension liability and related deferred inflows and outflows of resources in accordance with GASB statements No. 68 and 71, as described in Note 3 and 12.

REQUIRED SUPPLEMENTARY INFORMATION

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2014	2013
School's proportion of the net pension liability	0.00731600%	0.00731600%
School's proportionate share of the net pension liability	\$ 370,259	\$ 435,059
School's covered-employee payroll	\$ 212,583	\$ 116,828
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	372.39%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2014	2013
School's proportion of the net pension liability	0.00000694%	0.00000694%
School's proportionate share of the net pension liability	\$ 1,688	\$ 2,011
School's covered-employee payroll	\$ 708	\$ 18,454
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.42%	10.90%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL'S CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 20,969	\$ 29,464	\$ 16,169	\$ 6,664
Contributions in relation to the contractually required contribution	<u>(20,969)</u>	<u>(29,464)</u>	<u>(16,169)</u>	<u>(6,664)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 159,097	\$ 212,583	\$ 116,828	\$ 49,546
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

Note: Mahoning County High School began operations in fiscal year 2009; therefore, information prior to fiscal year 2009 is not applicable.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 6,914	\$ -	\$ -
<u>(6,914)</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 55,004	\$ -	\$ -
12.57%	13.54%	9.84%

**MAHONING COUNTY HIGH SCHOOL
MAHONING COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SCHOOL'S CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 638	\$ 92	\$ 2,399	\$ 2,961
Contributions in relation to the contractually required contribution	<u>(638)</u>	<u>(92)</u>	<u>(2,399)</u>	<u>(2,961)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 4,557	\$ 708	\$ 18,454	\$ 22,777
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

Note: Mahoning County High School began operations in fiscal year 2009; therefore, information prior to fiscal year 2009 is not applicable.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 159	\$ 2,229	\$ 9,286
<u>(159)</u>	<u>(2,229)</u>	<u>(9,286)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,223	\$ 17,146	\$ 71,431
13.00%	13.00%	13.00%

**MAHONING COUNTY HIGH SCHOOL
MAHONING 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 financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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 financials for the methods and assumptions in this calculation.



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

Mahoning County High School
Mahoning County
940 Bryn Mawr Avenue
Youngstown, Ohio 44505

To the Governing Board:

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 the Mahoning County High School, Mahoning County, (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 January 21, 2016. We also noted the School adopted new accounting guidance in Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standard No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. As referenced in Note 14 to the financial statements, the School has suffered recurring losses from operations and has a net position deficiency. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

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 "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

January 21, 2016

**MAHONING COUNTY HIGH SCHOOL
MAHONING 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

Operating Losses

Sound financial planning and cash management is the responsibility of School's management.

As of June 30, 2015, the School had a deficit net position of \$572,008. The deficit net position is a result of recurring losses from operations and the reporting of the net pension liability and related deferred inflows and outflows of resources in accordance with GASB statements No. 68 and 71, as described in Note 3 and 12.

While the notes to the financial statements reflect the deficit net position, Note 14 titled "Management Plan" is incomplete and does not indicate any plans on the part of the School's management to address this condition. Failure to implement, adopt and disclose a management plan may lead to additional fiscal distress.

Procedures should be implemented to address operating losses. The School's management and Board should formally adopt a plan to address this negative financial condition and include the plan in the "Management Plan" note.

Official's Response:

The administration communicates with the Board the net operating position, which is due to GASB 68 and the requirements established for pension disclosures associated with Government entities and how they are disclosed pursuant to Statement 68. The Board is evaluating increasing revenue and have identified multiple sources by which we hope to alleviate our current net operating deficit significantly by Fiscal Year 2018.

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MAHONING COUNTY HIGH SCHOOL

MAHONING 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
FEBRUARY 23, 2016**