



OHIO AUDITOR OF STATE
KEITH FABER



PROMISE ACADEMY
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

Promise Academy
Cuyahoga County
1701 East 13th Street
Cleveland, Ohio 44114

To the Board of Directors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for 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 Academy'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 Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Promise Academy, Cuyahoga County, Ohio, as of June 30, 2018, and the changes in its financial position and cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and other post-employment benefit liabilities and pension and other post-employment benefit 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 May 29, 2019, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Academy's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State

Columbus, Ohio

May 29, 2019

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Promise Academy
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The Management's Discussion and Analysis (MD&A) of Promise Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the period ending June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the 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 in June of 1999.

Financial Highlights

- Total net position increased \$213,359 from 2017.
- Total assets increased by \$401,407 which represents a 32 percent change from 2017.
- Total liabilities increased by \$186,675 which represents a 17 percent change from 2017.
- The Academy implemented GASB 75, which reduced beginning net position as previously reported by \$20,134.
- An increase in long-term liabilities is due to signing a new purchased services agreement with Cleveland Municipal School District related to fiscal year 2018.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position includes all assets and deferred outflow of resources and liabilities and deferred inflow of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Promise Academy
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Table 1 provides a summary of the Academy's Statement of Net Position for fiscal years 2018 and 2017.

(Table 1)
Statement of Net Position

	2018	Restated 2017
Assets		
Current Assets	\$ 1,408,448	\$ 985,460
Non-Current Assets	264,156	285,737
<i>Total Assets</i>	<u>1,672,604</u>	<u>1,271,197</u>
Deferred Outflows	<u>37,259</u>	<u>36,123</u>
Liabilities		
Current Liabilities	734,123	1,049,686
Long Term Liabilities	579,402	77,164
<i>Total Liabilities</i>	<u>1,313,525</u>	<u>1,126,850</u>
Deferred Inflows	<u>2,509</u>	<u>0</u>
Net Position		
Investment in Capital Assets	264,156	285,737
Unrestricted	129,673	(105,267)
<i>Total Net Position</i>	<u>\$ 393,829</u>	<u>\$ 180,470</u>

The net pension liability (NPL) is one of the liabilities reported by the Academy at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, the Academy adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Academy's proportionate share of each plan's collective:

Promise Academy
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$200,604 to \$180,470.

Total assets increased \$401,407. This increase was primarily due to an increase in cash. Total current liabilities decreased by \$315,563 while long term liabilities increased by \$502,238. This change is due to the Academy signing an agreement with Cleveland Municipal School District to repay services rendered over a six year period.

Promise Academy
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Table 2 shows the changes in net position for fiscal years 2018 and 2017. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

(Table 2)
Change in Net Position

	2018	2017
Operating Revenue	\$ 1,760,479	\$ 1,947,619
Non-Operating Revenue	263,558	487,824
Total Revenue	2,024,037	2,435,443
Operating Expenses	2,563,010	2,766,895
Income (Loss) Before Special Item	(538,973)	(331,452)
Special Item	752,332	
Change in Net Position	\$ 213,359	\$ (331,452)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$2,257. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Expenses under GASB 75	\$ 2,563,010
OPEB Expense under GASB 75	(2,257)
2018 Contractually Required Contribution	353
Adjusted 2018 Expenses	2,561,106
Total 2017 Expenses under GASB 45	2,766,895
Decrease in Expenses not Related to OPEB	\$ (205,789)

Most Expenses are in Contracted Services as the Academy remits most of its revenue to the Cleveland Municipal School District for reimbursed costs on behalf of the Academy to provide instruction and other costs for the use of their staff.

Capital Assets

The Academy has net investment in capital assets. Detailed information regarding capital asset activity is included in the Note 5 in the notes to the basic financial statements. The Academy's capital assets consist of leasehold improvements and amounted to \$264,156 and \$285,737, net of depreciation for fiscal years 2018 and 2017, respectively.

Promise Academy
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Debt

The Academy has outstanding debt. Detailed information regarding debt activity is included in the Note 11 in the notes to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

Promise Academy
Cuyahoga County, Ohio
Statement of Net Position
June 30, 2018

ASSETS

Current Assets

Cash & Cash Equivalents	\$ 1,152,234
CMSD Receivable	57,189
State Aid Receivable	14,437
Intergovernmental Receivable	<u>184,588</u>
Total Current Assets	<u>1,408,448</u>

Noncurrent Assets

Capital Assets, net	<u>264,156</u>
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Total Assets	<u>1,672,604</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pension	34,054
OPEB	<u>3,205</u>

Total Deferred Outflows of Resources	<u>37,259</u>
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LIABILITIES

Current Liabilities

Accounts Payable	3,105
Intergovernmental Payable	184,588
State Aid Payable	46,430
Purchased Services Agreement Payable	<u>500,000</u>
Total Current Liabilities	<u>734,123</u>

Long Term Liabilities

Net Pension Liability	56,402
Net OPEB Liability	23,000
Purchased Services Agreement Payable, Net of Current Portion	<u>500,000</u>
Total Long Term Liabilities	<u>579,402</u>

Total Liabilities	<u>1,313,525</u>
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DEFERRED INFLOWS OF RESOURCES

Pension	266
OPEB	<u>2,243</u>

Total Deferred Inflows of Resources	<u>2,509</u>
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NET POSITION

Investment In Capital Assets	264,156
Unrestricted Net Position	<u>129,673</u>
Total Net Position	<u>\$ 393,829</u>

See accompanying notes to the basic financial statements.

Promise Academy
Cuyahoga County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

OPERATING REVENUES

Foundation Payments	\$ 1,760,479
Total Operating Revenues	1,760,479

OPERATING EXPENSES

Pension & OPEB	8,489
Purchased Services	886,141
Supplies and Materials	72,120
Contracted Services	1,495,849
Depreciation	21,581
Other Expenses	78,830
Total Operating Expenses	2,563,010
Operating Income (Loss)	(802,531)

NON-OPERATING REVENUES

Federal Grants	186,088
Personal Property Taxes	75,752
Private Grants and Contributions	600
Interest	52
Other	1,066
Total Non-Operating Revenues	263,558
Income (Loss) Before Special Items	(538,973)
Special Item (See Note 2)	752,332
Change in Net Position	213,359
Net Position Beginning of Year (Restated)	180,470
Net Position End of Year	\$ 393,829

See accompanying notes to the basic financial statements.

Promise Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From State of Ohio	\$ 1,737,390
Cash Payments To Suppliers For Goods And Services	(1,508,562)
Cash Payments To Other Operating Expenses	(78,957)
Cash Payments To Employees	(4,878)
Net Cash Provided by (Used For) Operating Activities	144,993

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received From Intergovernmental Revenue	248,528
Cash Received From Other Non-Operating Sources	1,666
Net Cash Provided by Noncapital Financing Activities	250,194

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	52
Net Increase in Cash and Cash Equivalents	395,239
Cash and Cash Equivalents at Beginning of Year	756,995
Cash and Cash Equivalents at End of Year	\$ 1,152,234

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating Income (Loss)	\$ (802,531)
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ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Depreciation	21,581
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:	
Accounts Receivable	(14,437)
Deferred Outflows of Resources	(1,136)
Deferred Inflows of Resources	2,509
Accounts Payable	(54,452)
State Aid Payable	(8,779)
Purchased Services Agreement Payable	1,000,000
Net Pension/OPEB Liability	2,238
Total Adjustments	947,524
Net Cash Provided by (Used For) Operating Activities	\$ 144,993

NON-CASH FINANCING AND INVESTING ACTIVITIES

Forgiveness of Purchased Services from Cleveland Municipal School District	752,332
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See accompanying notes to the basic financial statements.

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Description of Academy and Reporting Entity

Promise Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy, which is part of the State's education program, is independent of any school district and is non-sectarian in its programs, admissions policies employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as a tax exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that may adversely affect the Academy's tax exempt status.

The Academy was approved for operation under a contract with the Cleveland Municipal School District (the Sponsor). For the year ended June 30, 2018, the Academy was operating under a contract with the Sponsor that was entered into July 1, 2013 for a period of five years. This agreement was renewed through June 30, 2019. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Governing Board controls the Academy's one instructional facility at year end 2018 was staffed by 16 certified full time teaching personnel who provide services to 202 students.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) 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 Academy's accounting policies are described below.

Basis of Presentation

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

Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used of the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Cash and Investments

For purposes of the Statement of Cash Flows and for the presentation on the Statement of Net Position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During fiscal year 2018, the Academy's cash equivalents were limited to a business sweep checking account.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the school. For the Academy, these revenues are primarily foundations payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

Estimates

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

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. There was no net position restricted for enabling legislation at fiscal year-end.

Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at acquisition value as of the date received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure. Improvements are capitalized, and the cost 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 recorded capital assets are depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 Years
Buildings and Building Improvements	25 - 40 Years
Furniture and Equipment	5 Years
Vehicles	3 Years

Liabilities

The Academy has recognized certain liabilities on its Statement of Net Position relating to expenses which are due but unpaid as of June 30, 2018.

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The Academy may participate in various federal and state grant programs through the Ohio Department of Education. Grants and entitlements received under these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of 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 Academy, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position 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 until that time. For the Academy, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 7 and 8).

Pensions and Other Postemployment Benefits (OPEB)

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. For fiscal year 2018, the special item reported on the Statement of Revenues, Expenses and Changes in Net Position was due to debt forgiveness by Cleveland MSD for outstanding purchased services incurred by the School. (See Note 11 for additional information).

Note 3 – Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the financial statements. See below for the effect on net position as previously reported.

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Net Position, June 30, 2017	\$ 200,604
Adjustments:	
Net OPEB Liability	(20,134)
Restated Net Position, July 1, 2017	<u>\$ 180,470</u>

The Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the Academy's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

Note 4 - Deposits

At fiscal year end June 30, 2018, the carrying amount of the Academy's deposits was \$1,152,234. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*.

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

- Eligible securities pledged to the Academy and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or
- Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS required the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

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Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018
<i>Capital Assets, Being Depreciated:</i>				
Leasehold Improvements	\$ 798,515	\$ 0	\$ 0	\$ 798,515
Furniture and Fixtures	11,495	0	0	11,495
<i>Total Capital Assets, Being Depreciated</i>	810,010	0	0	810,010
<i>Less Accumulated Depreciation:</i>				
Leasehold Improvements	(512,778)	(21,581)	0	(534,359)
Furniture and Fixtures	(11,495)	0	0	(11,495)
<i>Total Accumulated Depreciation</i>	(524,273)	(21,581)	0	(545,854)
<i>Capital Assets, Net</i>	\$ 285,737	\$ (21,581)	\$ 0	\$ 264,156

Note 6 – Risk Management

Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2018, the Academy contracted with commercial insurance companies for the following:

Commercial General Liability:

Per Occurrence	\$ 3,000,000
General Aggregate	3,000,000
Products/Completed Ops	3,000,000
Personal & Advertising Injury	3,000,000

Education Legal/Employment Practice Liability:

Per Occurrence	\$ 2,000,000
Aggregate	2,000,000

Workers' Compensation

All employees, except one, are contracted through Cleveland Municipal School District, which pays the Workers' Compensation System based on their payroll. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

Promise Academy
Cuyahoga County, Ohio
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Note 7 – Defined Benefit Pension Plan

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy’s non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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.

Promise Academy
Cuyahoga County, Ohio
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For the Fiscal Year Ended June 30, 2018

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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy 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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The Academy's contractually required contribution to SERS was \$3,740 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

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	SERS
Proportion of the Net Pension Liability:	
Current Measurement Date	0.00094400%
Prior Measurement Date	0.00077920%
Change in Proportionate Share	0.00016480%
Proportionate Share of the Net	
Pension Liability	\$ 56,402
Pension Expense	\$ 5,447

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Academy's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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

	SERS
Deferred Outflows of Resources	
Differences between Expected and	
Actual Experience	\$ 2,425
Changes of Assumptions	2,916
Changes in Proportion and Differences between	
Academy Contributions and Proportionate	
Share of Contributions	24,973
Academy Contributions Subsequent to the	
Measurement Date	3,740
Total Deferred Outflows of Resources	\$ 34,054
 Deferred Inflows of Resources	
Net Difference between Projected and	
Actual Earnings on Pension Plan Investments	\$ 266
Total Deferred Inflows of Resources	\$ 266

\$3,740 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Fiscal Year Ending June 30:	SERS
2019	\$ 14,921
2020	13,349
2021	3,092
2022	(1,314)
	\$ 30,048

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 terminations). 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, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 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.

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The actuarial assumptions used in the June 30, 2017 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 most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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	10.00	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 inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 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 Academy'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 Academy's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

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	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's Proportionate Share of the Net Pension Liability	\$ 78,271	\$ 56,402	\$ 38,082

Note 8 – Defined Benefit OPEB Plan

Net OPEB Liability

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

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

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

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

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

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Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the Academy's surcharge obligation was \$214.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$353 for fiscal year 2018. Of this amount \$353 is reported as an accounts payable.

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

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

	SERS
Proportion of the Net OPEB Liability	
Current Measurement Date	0.00085700%
Prior Measurement Date	0.00070636%
Change in Proportionate Share	0.00015064%
Proportionate Share of the Net OPEB Liability	\$ 23,000
OPEB Expense	\$ 2,257

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

	SERS
Deferred Outflows of Resources	
Changes in Proportionate Share and Differences between Academy Contributions and Proportionate Share of Contributions	\$ 2,852
Academy Contributions Subsequent to the Measurement Date	353
Total Deferred Outflows of Resources	\$ 3,205
Deferred Inflows of Resources	
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 61
Changes of Assumptions	2,182
Total Deferred Inflows of Resources	\$ 2,243

\$353 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Fiscal Year Ending June 30:	SERS
2019	\$ 227
2020	227
2021	171
2022	(16)
	\$ 609

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

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Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity

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General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)								
Academy's Proportionate Share of the Net OPEB Liability	\$ 27,775	\$ 23,000	\$ 19,216								
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 15%; text-align: center; border-bottom: 1px solid black;">1% Decrease</th> <th style="width: 15%; text-align: center; border-bottom: 1px solid black;">Current Trend Rate</th> <th style="width: 15%; text-align: center; border-bottom: 1px solid black;">1% Increase</th> </tr> </thead> <tbody> <tr> <td style="padding-top: 10px;">Academy's Proportionate Share of the Net OPEB Liability</td> <td style="text-align: right; vertical-align: bottom;">\$ 18,662</td> <td style="text-align: right; vertical-align: bottom;">\$ 23,000</td> <td style="text-align: right; vertical-align: bottom;">\$ 28,740</td> </tr> </tbody> </table>					1% Decrease	Current Trend Rate	1% Increase	Academy's Proportionate Share of the Net OPEB Liability	\$ 18,662	\$ 23,000	\$ 28,740
	1% Decrease	Current Trend Rate	1% Increase								
Academy's Proportionate Share of the Net OPEB Liability	\$ 18,662	\$ 23,000	\$ 28,740								

Note 9 – Sponsorship Agreement

The Academy has a sponsorship contract with Cleveland Municipal School District (“CMSD”), effective July 1, 2013 through June 30, 2018, for educational and management services. In exchange for its time, organization, oversight, monitoring, fees, costs and other services, CMSD receives three percent of the total amount of payments for operating expenses that the Academy receives from the State of Ohio. The sponsorship contract was amended and will expire on June 30, 2019.

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For the Fiscal Year Ended June 30, 2018

Note 10 – Purchased Service Expenses

For the year ended June 30, 2018, purchased service expenses were payments for services rendered by various vendors as follows:

Rentals	\$ 451,977
Utilities	130,293
Tuition paid - Students	3,869
Professional Technical Services	47,075
Other Purchased Services	66,538
Communications	37,256
Instructional Improvements	9,998
Data Processing Services	64,294
Postage	5,735
Advertising	1,685
Repairs and Maintenance	1,000
Travel, Meeting Expenses	2,016
Legal Services	64,405
Total Purchased Services	<u>\$ 886,141</u>

Note 11 – Long-Term Obligations

Changes in the Academy’s long-term obligations during fiscal year 2018 were as follows:

	Restated Balance 06/30/2017	Additions	Reductions	Balance 06/30/2018	Due in One Year
Purchased Services Agreement Payable:					
Cleveland MSD	\$ 0	\$ 1,000,000	\$ 0	\$ 1,000,000	\$ 500,000
Net Pension/OPEB Liability:					
Pension	57,030	0	(628)	56,402	0
OPEB	20,134	2,866	0	23,000	0
<i>Total Net Pension/OPEB Liability</i>	<u>77,164</u>	<u>2,866</u>	<u>(628)</u>	<u>79,402</u>	<u>0</u>
<i>Total Long-Term Obligations</i>	<u>\$ 77,164</u>	<u>\$ 1,002,866</u>	<u>\$ (628)</u>	<u>\$ 1,079,402</u>	<u>\$ 500,000</u>

Purchased Services Agreement Payable Cleveland MSD

In December 2018, the Academy entered into an agreement with Cleveland Municipal School District (CMSD) to repay \$1,000,000, interest free, for services rendered in fiscal years 2018 and 2017. This agreement indicated that completion of the payment schedule will represent full satisfaction of all amounts owed by the Academy for purchased services through the effective date of the service payment plan. CMSD had provided some of its employees, including teachers, to the Academy in exchange for certain payments. The Academy’s management estimated the value of the debt forgiveness related to this agreement at \$752,332 which is recorded as a Special Item on the financial statements.

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The Academy has agreed to pay CMSD a total of \$1,000,000 plus student full time equivalency (FTE) bonus payments. CMSD shall be entitled to payments of \$1,500 per the Academy's final annualized FTE that exceeds the thresholds in the following schedule (FTE bonus payments).

School Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
FTE Threshold	205	210	215	220	225

The FTE bonus payments are to be calculated and paid annually through the end of the 2023-2024 school year or until CMSD has received a total FTE bonus payment equaling \$300,000, whichever occurs sooner.

The annual requirements to retire the purchased services agreement payable is as follows:

Fiscal Year	Principal
<u>Ending June 30,</u>	<u> </u>
2019	\$ 500,000
2020	100,000
2021	100,000
2022	100,000
2023	100,000
2024	<u>100,000</u>
Total	<u>\$ 1,000,000</u>

Note 12 – Operating Lease

On August 1, 2008, the Academy entered into a lease for the current school premises under a non-cancelable agreement that expires on July 31, 2023. The Academy has the option to terminate the lease at the end of the fifth lease year for a terminations fee of \$100,000. The Academy also has the option to terminate the lease at the end of tenth lease year without a termination fee. Lease terms also include a renewal option for an additional five year term at a rental rate equal to 90% of the then market rate for a comparable office building. Rental expense under operating leases was \$451,977 in fiscal 2018.

On May 4, 2018 the Academy renegotiated the lease extending the term to September 30, 2023. August and September 2018 rent was abated. Annual fixed minimum rent for the next five years is \$200,000.

Future minimum rental payments due in each of the next five years and thereafter are:

Promise Academy
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

		Leases
Fiscal Year Ending June 30,	2019	\$ 166,668
	2020	200,000
	2021	200,000
	2022	200,000
	2023	200,000
	2024	66,667
Total Minimum Lease Payments		\$ 1,033,335

Note 13 – Contingencies

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 Academy, any such adjustments will not have a material adverse effect on the financial position of the Academy.

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.

As of the date of this report, all ODE adjustments through fiscal year 2018 have been completed.

In addition, the Academy’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 2018 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

Note 14 – Subsequent Event

In April 2019, the Board of Directors approved a new sponsorship agreement with Buckeye Community Hope Foundation.

Promise Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

<i>School Employees Retirement System (SERS)</i>	2018	2017	2016
Academy's Proportion of the Net Pension Liability	0.00094400%	0.00077920%	0.00014120%
Academy's Proportionate Share of the Net Pension Liability	\$ 56,402	\$ 57,030	\$ 8,057
Academy's Covered Payroll	\$ 30,165	\$ 30,201	\$ 4,208
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	186.98%	188.83%	191.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Information prior to 2016 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Promise Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - Pension
Last Four Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 3,740	\$ 4,223	\$ 4,228	\$ 589
Contributions in Relation to the Contractually Required Contribution	<u>(3,740)</u>	<u>(4,223)</u>	<u>(4,228)</u>	<u>(589)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 27,704	\$ 30,165	\$ 30,201	\$ 4,208
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%

See accompanying notes to the required supplementary information.

Promise Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

<i>School Employees Retirement System (SERS)</i>	<u>2018</u>	<u>2017</u>
Academy's Proportion of the Net OPEB Liability	0.00085700%	0.00070636%
Academy's Proportionate Share of the Net OPEB Liability	\$ 23,000	\$ 20,134
Academy's Covered Payroll	\$ 30,165	\$ 30,201
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.25%	66.67%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

Promise Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - OPEB
Last Three Fiscal Years

<i>School Employees Retirement System (SERS)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution (1)	\$ 353	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>(353)</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 27,704	\$ 30,165	\$ 30,201
OPEB Contributions as a Percentage of Covered Payroll (1)	1.27%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

Promise Academy
Cuyahoga County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
 - 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 was updated to the following:
 - 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 disable member was updated to the following:
 - 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

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OHIO AUDITOR OF STATE KEITH FABER



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

Promise Academy
Cuyahoga County
1701 East 13th Street
Cleveland, Ohio 44114

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Promise Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 29, 2019, wherein we noted the Academy adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy'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 Academy'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 Academy'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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

May 29, 2019

OHIO AUDITOR OF STATE KEITH FABER



PROMISE ACADEMY

CUYAHOGA 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
JUNE 11, 2019**