

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE PERIOD
JULY 1, 2014 THROUGH SEPTEMBER 30, 2015*

RICK BERDINE, TREASURER



Dave Yost • Auditor of State

Governing Board
Imagine Cleveland Academy
3443 E. 93rd Avenue
Cleveland, Ohio 44104

We have reviewed the *Independent Auditor's Report* of the Imagine Cleveland Academy, Cuyahoga County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through September 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

April 20, 2016

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**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Imagine Cleveland Academy
Cuyahoga County
3443 E. 93rd Street
Cleveland, Ohio 44104

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Imagine Cleveland Academy, Cuyahoga County, Ohio, as of and for the period July 1, 2014 through September 30, 2015, and the related notes to the financial statements, which collectively comprise the Imagine Cleveland 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 Imagine Cleveland 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 Imagine Cleveland Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of 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 Imagine Cleveland Academy, Cuyahoga County, Ohio, as of September 30, 2015, and the changes in its financial position and its cash flows for the period July 1, 2014 through September 30, 2015 in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 3 to the financial statements, for the period July 1, 2014 through September 30, 2015, the Imagine Cleveland Academy adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. We did not modify our opinion regarding this matter.

The accompanying financial statements have been prepared assuming the Imagine Cleveland Academy will continue as a going concern. As described in Note 15 to the financial statements, the Ohio Department of Education (the "Sponsor") has suspended operations of the Imagine Cleveland Academy. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 26, 2016, on our consideration of the Imagine Cleveland 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 Imagine Cleveland Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.
January 26, 2016

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015**

The discussion and analysis of the Imagine Cleveland Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period July 1, 2014 through September 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the period July 1, 2014 through September 30, 2015 are as follows:

- In total, net position (deficit) was \$1,878,108 at September 30, 2015.
- The Academy had operating revenues of \$1,663,202, operating expenses of \$2,026,880 and non-operating revenues of \$402,744 for the period July 1, 2014 through September 30, 2015. The operating loss was \$363,678 and the change in net position was an increase of \$39,066.

Using these Basic Financial Statements

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy'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 Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy'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 the period July 1, 2014 through September 30, 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 fifteen month period's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in that position. 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 causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 8 and 9 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 10 of this report.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

The table below provides a summary of the Academy's net position for the period July 1, 2014 through September 30, 2015 and fiscal year 2014. Balances at June 30, 2014 have been restated as described in Note 3 to the basic financial statements.

	<u>2015</u>	<u>Restated 2014</u>
<u>Assets</u>		
Current assets	\$ 15,683	\$ 72,216
<u>Deferred outflows of resources</u>	<u>121,844</u>	<u>98,534</u>
<u>Liabilities</u>		
Current liabilities	15,839	76,054
Non-current liabilities	<u>1,692,284</u>	<u>2,011,870</u>
Total liabilities	<u>1,708,123</u>	<u>2,087,924</u>
<u>Deferred inflows of resources</u>	<u>307,512</u>	<u>-</u>
<u>Net Position</u>		
Unrestricted (deficit)	<u>(1,878,108)</u>	<u>(1,917,174)</u>
Total net position	<u>\$ (1,878,108)</u>	<u>\$ (1,917,174)</u>

During the fifteen month period ended September 30, 2015, the Academy 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 Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the Academy'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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015**

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 Academy 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 Academy’s statements prepared on an accrual basis of accounting include for the fifteen months ended 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 Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from a deficit \$3,838 to \$1,917,174.

Over time, net position can serve as a useful indicator of a government’s financial position. At September 30, 2015 and June 30, 2014, the Academy’s net position totaled deficit \$1,878,108 and \$1,917,174, respectively.

Current assets represent cash and intergovernmental receivables. The Academy reported an intergovernmental receivable for grants at September 30, 2015 and June 30, 2014, in the amount of \$943 and \$71,100, respectively. As a result of the full-time equivalency review by the Ohio Department of Education at June 30, 2014, an intergovernmental receivable in the amount of \$816 was reported. The Academy reported accounts receivable of \$14,455 at September 30, 2015 for amounts due from Imagine for overpayment of State foundation revenue due to the Ohio Department of Education.

Current liabilities of \$943 and \$76,054 at September 30, 2015 and June 30, 2014, respectively, represent accounts payable for professional services. Current liabilities of \$14,896 at September 30, 2015 represent intergovernmental payables due to the Ohio Department of Education as a result of the full-time equivalency reviews (see Note 14.B in the notes to the basic financial statements for detail).

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

The table below shows the changes in net position for the period July 1, 2014 through September 30, 2015 and fiscal year 2014. Certain amounts for 2014 have been restated as described in Note 3 to the basic financial statements.

Change in Net Position

	<u>2015</u>	<u>2014</u>
<u>Operating Revenues:</u>		
State foundation	\$ 1,663,202	\$ 1,499,566
Total operating revenue	<u>1,663,202</u>	<u>1,499,566</u>
<u>Operating Expenses:</u>		
Purchased services	2,026,880	1,859,032
Other	<u>-</u>	<u>188</u>
Total operating expenses	<u>2,026,880</u>	<u>1,859,220</u>
<u>Non-operating Revenues:</u>		
Federal and state grants	<u>402,744</u>	<u>359,347</u>
Total non-operating revenues	<u>402,744</u>	<u>359,347</u>
Change in net position	39,066	(307)
Net position (deficit) at beginning of year (restated)	<u>(1,917,174)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (1,878,108)</u>	<u>\$ (1,917,174)</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 operating expenses still include pension expense of \$98,534 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 period July 1, 2014 through September 30, 2015 statements report pension expense of \$70,442.

Consequently, in order to compare the period July 1, 2014 through September 30, 2015 total operating expenses to fiscal year 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	\$ 2,026,880
Pension expense under GASB 68	(70,442)
2015 contractually required contributions	<u>105,826</u>
Adjusted 2015 operating expenses	2,062,264
Total 2014 operating expenses under GASB 27	<u>1,859,220</u>
Increase in operating expenses not related to pension	<u>\$ 203,044</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015**

Enrollment increased from 199 students in fiscal year 2014 to 214 students in 2015, which contributed directly to the increase in State foundation revenue and overall expenses. The Academy relies on State foundation revenues for operations, with 80.51 and 80.67 percent of total revenues coming from State foundation for the period July 1, 2014 through September 30, 2015 and fiscal year 2014, respectively. Federal and state grants include monies received from the Federal breakfast and lunch, Title VI-B, and Title I programs.

The Academy contracted with Imagine Schools, Inc. for management services for the period July 1, 2014 through September 30, 2015 and fiscal year 2014 (see Note 9.B to the notes to the basic financial statements for detail).

Debt

The Academy had no long-term debt obligations outstanding at September 30, 2015 or June 30, 2014.

Capital Assets

The Academy had no capital assets to report at September 30, 2015 or June 30, 2014.

Restrictions and Other Limitations

The future stability of the Academy is not without challenges. The Academy does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the Academy.

Current Financial Related Activities

The Academy is sponsored by the Office of School Sponsorship. The Academy is reliant upon State foundation monies and Federal Grants to offer quality, educational services to students. The Academy's operations were suspended by the Office of School Sponsorship on July 7, 2015. A determination will be made by June 30, 2016 if the Academy will resume operations.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Richard Berdine, Treasurer, Imagine Cleveland Academy, 3443 E. 93rd Street, Cleveland, Ohio 44104.

**BASIC
FINANCIAL STATEMENTS**

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Assets:	
Current assets:	
Cash	\$ 285
Receivables:	
Accounts	14,455
Intergovernmental.	943
	15,683
Total assets	
Deferred outflows of resources:	
Pension - STRS	98,615
Pension - SERS	23,229
	121,844
Total deferred outflows of resources	
Liabilities:	
Current liabilities:	
Accounts payable	943
Intergovernmental payable	14,896
	15,839
Total current liabilities	
Long-term liabilities:	
Net pension liability.	1,692,284
	1,708,123
Total liabilities.	
Deferred inflows of resources:	
Pension - STRS	267,715
Pension - SERS	39,797
	307,512
Total deferred inflows of resources	
Net position:	
Unrestricted (deficit)	(1,878,108)
	(1,878,108)
Total net position (deficit).	\$ (1,878,108)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

Operating revenues:	
State foundation	\$ 1,663,202
Total operating revenues	<u>1,663,202</u>
Operating expenses:	
Purchased services	<u>2,026,880</u>
Total operating expenses.	<u>2,026,880</u>
Operating loss	<u>(363,678)</u>
Non-operating revenues:	
Federal and State grants.	<u>402,744</u>
Total non-operating revenues	<u>402,744</u>
Change in net position.	39,066
Net position (deficit) at beginning of year (restated)	<u>(1,917,174)</u>
Net position (deficit) at end of year	<u>\$ (1,878,108)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

Cash flows from operating activities:	
Cash received from State foundation	\$ 1,678,914
Cash payments for purchased services	<u>(2,151,830)</u>
Net cash used in operating activities	<u>(472,916)</u>
 Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	<u>472,901</u>
Net cash provided by noncapital financing activities.	<u>472,901</u>
Net decrease in cash	(15)
Cash at beginning of period	<u>300</u>
Cash at end of period	<u><u>\$ 285</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (363,678)
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
(Increase) in accounts receivable	(14,455)
Decrease in intergovernmental receivable.	816
(Increase) in deferred outflows - pensions	(23,310)
(Decrease) in accounts payable	(75,111)
Increase in intergovernmental payable	14,896
(Decrease) in net pension liability.	(319,586)
Increase in deferred inflows - pensions	<u>307,512</u>
Net cash used in operating activities	<u><u>\$ (472,916)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015**

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Imagine Cleveland Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy was established as an alternative to traditional public education for kindergarten through fourth grade students. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission 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.

On May 12, 2010, the Academy, originally named Aspire Academy, was approved under contract with the Portage County Educational Service Center commencing on July 1, 2010 and ending on June 30, 2015. The Ohio Department of Education removed the Portage County Educational Service Center as sponsor effective April 27, 2015, and the Office of School Sponsorship (the “Sponsor”) assumed sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

For the period July 1, 2010 through November 29, 2010, Multi-State Billing Services, LLC served as the operating company for the Academy. The Academy began contracting with Imagine Schools, Inc. for most functions effective November 30, 2010 (see Note 9.B for detail), at which time the School was renamed the Imagine Cleveland Academy.

On December 27, 2010, the operations of the Academy were suspended by the Sponsor. The suspension was rescinded on June 15, 2011. On July 7, 2015, the operations of the Academy were suspended by the Sponsor.

The Academy operates under the direction of a five-member Governing Board who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the Academy. 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 instructional/support facility staffed by employees of the management company who provide services to 214 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The Academy uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

**IMAGINE CLEVELAND ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

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

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the Academy's finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue 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 period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period 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.

D. 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 Academy, deferred outflows of resources have been reported for the following two items related the Academy's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Academy'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 Academy, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability.

E. Budgetary Process

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**IMAGINE CLEVELAND ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

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

F. Cash

Cash received by the Academy is reflected as “cash” on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. The Academy did not have any investments during the fifteen month period ended September 30, 2015.

G. Capital Assets

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The Academy has established a capitalization threshold of \$1,500. The Academy 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.

The Academy had no capital assets over the threshold to report at September 30, 2015.

H. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy 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 Academy currently participates in the State Foundation, Special Education, Economic Disadvantaged, Targeted Assistance, and Facilities Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the fifteen month period July 1, 2014 through September 30, 2015 totaled \$1,663,202.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue received during the fifteen month period ended September 30, 2015, was \$402,744.

J. Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net position.

**IMAGINE CLEVELAND ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

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

K. Operating Revenues and Expenses

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

L. 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.

M. 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.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For the fifteen month period ended September 30, 2015, the Academy 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 Academy.

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 Academy's pension plan disclosures, as presented in Note 6, and added required supplementary information which is presented after the notes to the financial statements.

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

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NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

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

Net position as previously reported	\$ (3,838)
Deferred outflows - payments subsequent to measurement date	98,534
Net pension liability	<u>(2,011,870)</u>
 Restated net position at July 1, 2014	 <u>\$ (1,917,174)</u>

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

NOTE 4 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At September 30, 2015, the carrying amount of the Academy's deposits and the bank balance was \$285. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES/PAYABLES

Receivables at September 30, 2015, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	<u>Amount</u>
Title I	<u>\$ 943</u>

Under the terms of the operating contract with Imagine Schools, Inc. (See Note 9.B for detail), the Academy has recorded accounts payable to Imagine Schools, Inc. in the amount of \$943 for 100 percent of any State and Federal grant monies uncollected or unpaid as of September 30, 2015.

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NOTE 6 - DEFINED BENEFIT PENSION PLANS

The Academy has contracted with Imagine Schools, Inc. (See Note 9.B) to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting retirement contributions to the systems noted below.

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description - Academy 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.

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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 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 period July 1, 2014 through September 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 Academy's contractually required contribution to SERS was \$21,142 for the fifteen month period ended September 30, 2015.

Plan Description - State Teachers Retirement System (STRS)

Plan Description –Academy 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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 period July 1, 2014 through September 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The period July 1, 2014 through September 30, 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$84,684 for the fifteen month period ended September 30, 2015.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 Academy's proportion of the net pension liability was based on the Academy'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	\$ 245,203	\$ 1,447,081	\$ 1,692,284
Proportion of the net pension liability	0.00484500%	0.00594932%	
Pension expense	\$ 14,309	\$ 56,133	\$ 70,442

At September 30, 2015, the Academy 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	\$ 2,087	\$ 13,931	\$ 16,018
Academy contributions subsequent to the measurement date	<u>21,142</u>	<u>84,684</u>	<u>105,826</u>
Total deferred outflows of resources	<u>\$ 23,229</u>	<u>\$ 98,615</u>	<u>\$ 121,844</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 39,797</u>	<u>\$ 267,715</u>	<u>\$ 307,512</u>

\$105,826 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 period 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:

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

Period Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ (9,427)	\$ (63,446)	\$ (72,873)
2017	(9,427)	(63,446)	(72,873)
2018	(9,427)	(63,446)	(72,873)
2019	<u>(9,429)</u>	<u>(63,446)</u>	<u>(72,875)</u>
Total	<u>\$ (37,710)</u>	<u>\$ (253,784)</u>	<u>\$ (291,494)</u>

Actuarial Assumptions - SERS

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

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

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

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

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.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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>	

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 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 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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$ 349,831	\$ 245,203	\$ 157,201

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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:

<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>	

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy'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 Academy'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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 2,071,654	\$ 1,447,081	\$ 918,902

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - Imagine Schools, Inc., on behalf of the Academy 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.

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**NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

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 the fifteen month period July 1, 2014 through September 30, 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 the period July 1, 2014 through September 30, 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. For the fifteen period ended September 30, 2015, the Academy's surcharge obligation was \$794.

The Academy's contributions for health care for the fifteen month period ended September 30, 2015, and the fiscal years ended 2014, and 2013 were \$1,315, \$256, and \$253, respectively. The full amount has been contributed for the fifteen month period ended September 30, 2015 and the fiscal years ended 2014 and 2013.

B. State Teachers Retirement System

Plan Description - Imagine Schools, Inc., on behalf of the Academy 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.

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 the fifteen month period July 1, 2014 through September 30, 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fifteen month period ended September 30, 2015, and the fiscal years ended June 30, 2014, and 2013 were \$0, \$7,038, and \$5,649 respectively. The full amount has been contributed for fiscal years 2014 and 2013.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 8 - RISK MANAGEMENT

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 period July 1, 2014 through September 30, 2015, the Academy maintained the following coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	3,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Property liability:	
Personal property limit	200,000
Workers compensation and employers liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000
Directors and officers	3,000,000
Crime	1,000,000

Settled claims have not exceeded this commercial coverage in the past three years. There was no reduction in coverage for the period July 1, 2014 through September 30, 2015.

NOTE 9 - CONTRACTS

A. Sponsor Contract

The Academy entered into a sponsorship contract commencing on July 1, 2010 and ending on June 30, 2015 with the Portage County Educational Service Center for its establishment. The Ohio Department of Education removed the Portage County Educational Service Center as sponsor effective April 27, 2015, and the Office of School Sponsorship (the "Sponsor") assumed sponsorship of the Academy. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy's compliance with the laws applicable to the Academy and with the terms of this contract;

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015**

NOTE 9 - CONTRACTS - (Continued)

- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Provide reasonable technical assistance to the Academy in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the Academy);
- Take steps to intervene in the Academy's operation to correct problems in the Academy's overall performance, declare the Academy to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant 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 Sponsor; and
- Establish and/or require a plan of action to be undertaken if the Academy experiences financial difficulties or losses before the end of the school year.

The Academy paid Portage County Educational Service Center \$42,201 and the Office of School Sponsorship \$3,936 for services during the fifteen month period ended September 30, 2015.

B. Operating Contract

The Academy entered into an operating contract with Imagine Schools, Inc. for management consulting services. The contract shall continue until termination or expiration without renewal of the charter. Imagine Schools, Inc. is required to provide the following services:

- Personnel & human resources administration
- Program of instruction
- Purchasing & contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

For the services listed above, the Academy is required to pay a fee to Imagine Schools, Inc. The fee is equal to approximately 90 percent of the total per pupil allowance received from the State of Ohio and of state and/or federal grant funds received by the Academy for the creation and operation of its school. Imagine Schools, Inc. charges the Academy (retains) an amount equaling the excess of unrestricted revenue over expense. Payments to Imagine Schools, Inc. amounted to \$1,893,527 during the fifteen month period ended September 30, 2015.

C. Computer Services Contract

The Academy entered into a contract on June 30, 2014, with the North Central Ohio Computer Cooperative/Heartland Council of Governments (NCOCC/H-COG) for computer services. The contract is in effect from July 1, 2014, until a successive contract is approved. Imagine Schools, Inc., on behalf of the Academy, paid NCOCC/H-COG for services provided during the fifteen month period ending September 30, 2015.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Restated Balance			Balance	Amounts Due in
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2015</u>	<u>One Year</u>
Net pension liability:					
STRS	\$ 1,723,753	\$ -	\$ (276,672)	\$ 1,447,081	\$ -
SERS	288,117	-	(42,914)	245,203	-
Total net pension liability	<u>\$ 2,011,870</u>	<u>\$ -</u>	<u>\$ (319,586)</u>	<u>\$ 1,692,284</u>	<u>\$ -</u>

Net Pension Liability: See Note 3 and Note 6 for information on the Academy's net pension liability.

NOTE 11 - OPERATING COMPANY EXPENSES

For the fifteen month period ended September 30, 2015, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the Academy:

Direct Expenses:	
Salaries and wages	\$ 783,380
Employees' benefits	247,695
Purchased services	442,204
Supplies and materials	68,638
Capital outlay	60,561
Other direct costs	53,453
Indirect Expenses	<u>218,259</u>
Total expenses	<u>\$ 1,874,190</u>

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

NOTE 12 - PURCHASED SERVICES EXPENSES

For the fifteen month period ended September 30, 2015, purchased services expenses were as follows:

Operating fees	\$ 1,893,527
Sponsor fees	46,137
Operating lease payments	76,256
Professional and technical services	<u>10,960</u>
Total	<u>\$ 2,026,880</u>

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015**

NOTE 13 - OPERATING LEASE

The Academy entered into a lease agreement on August 17, 2011, with Schoolhouse Finance, LLC, to lease classroom space for the Academy. The term of the lease commenced September 15, 2011, and shall continue so long as the contract between the Academy and the Academy's Sponsor remains in effect, inclusive of any renewals of the charter agreement. The Academy shall pay to Schoolhouse Finance, LLC \$6,000 in monthly base rent; provided, however, that in the event of Schoolhouse Finance, LLC's total cost to acquire and improve the premises for the benefit of the Academy is either greater than or less than \$600,000, the parties agree to amend the lease accordingly. For fiscal year 2014, the base rent increased to \$6,248 per month. The Academy paid \$76,256 in operating lease payments to Schoolhouse Finance, LLC, during the fifteen month period ended September 30, 2015.

NOTE 14 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at September 30, 2015.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the two reviews from fiscal year 2015 the Academy owes \$14,896 to ODE. This amount has been reported as an intergovernmental payable on the statement of net position. As of the date of this report, this payment has been made.

C. Litigation

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

NOTE 15 - GOING CONCERN

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which contemplates continuation of the School as a going concern.

The Academy's sponsor has suspended operations for fiscal year 2016. A determination will be made by June 30, 2016 by the Ohio Department of Education if the Academy will resume operations.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 30, 2015

NOTE 16 - SUBSEQUENT EVENTS

The Sponsor has suspended operations of the School on July 7, 2015, due to the School's academic performance. The School's sponsorship will be revaluated on June 30, 2016 and will make an official statement in regards to the final status of the School. The following is a schedule of all receipts and expenditure transactions which occurred subsequent to September 30, 2015.

Receipt	Expenditure	Payee/Vendor	Description
	\$ 15.12	FirstMerit Bank	September Bank Charge
\$ 942.50			Title I Payment
	\$ 14.98	FirstMerit Bank	October Bank Charge
	\$ 14.98	FirstMerit Bank	November Bank Charge
	\$ 942.50	Imagine Schools, Inc.	Management Payment
	\$2,200.00	Julian & Grube, Inc.	September 30, 2015 Compilation
	\$2,380.00	Julian & Grube, Inc.	September 30, 2015 Audit

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REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

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

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
Academy's proportion of the net pension liability	0.00484500%	0.00484500%
Academy's proportionate share of the net pension liability	\$ 245,203	\$ 288,117
Academy's covered-employee payroll	\$ 140,786	\$ 157,883
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	182.49%
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.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

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

LAST TWO FISCAL YEARS

	2014	2013
Academy's proportion of the net pension liability	0.00594932%	0.00594932%
Academy's proportionate share of the net pension liability	\$ 1,447,081	\$ 1,723,753
Academy's covered-employee payroll	\$ 607,854	\$ 564,854
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	305.17%
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.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

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

LAST FIVE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 21,142	\$ 19,513	\$ 21,851	\$ 13,834	\$ 3,748
Contributions in relation to the contractually required contribution	<u>(21,142)</u>	<u>(19,513)</u>	<u>(21,851)</u>	<u>(13,834)</u>	<u>(3,748)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 160,410	\$ 140,786	\$ 157,883	\$ 102,855	\$ 29,817
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%

Note: The Academy began operations in fiscal year 2011; therefore, information prior to fiscal year 2011 is not applicable.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 84,684	\$ 79,021	\$ 73,431	\$ 43,251	\$ 13,929
Contributions in relation to the contractually required contribution	<u>(84,684)</u>	<u>(79,021)</u>	<u>(73,431)</u>	<u>(43,251)</u>	<u>(13,929)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 604,886	\$ 607,854	\$ 564,854	\$ 332,700	\$ 107,146
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%

Note: The Academy began operations in fiscal year 2011; therefore, information prior to fiscal year 2011 is not applicable.

**IMAGINE CLEVELAND ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE PERIOD JULY 1, 2014 THROUGH SEPTEMBER 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 the fifteen month period July 1, 2014 through September 30, 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 the fifteen month period July 1, 2014 through September 30, 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 the fifteen month period July 1, 2014 through September 30, 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 the fifteen month period July 1, 2014 through September 30, 2015. See the notes to the basic financials for the methods and assumptions in this calculation.



Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Imagine Cleveland Academy
Cuyahoga County
3443 E. 93rd Street
Cleveland, Ohio 44104

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 Imagine Cleveland Academy, Cuyahoga County, Ohio, as of and for the period July 1, 2014 through September 30, 2015, and the related notes to the financial statements, which collectively comprise the Imagine Cleveland Academy's basic financial statements and have issued our report thereon dated January 26, 2016, wherein we noted as discussed in Note 3, the Imagine Cleveland Academy adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. We also noted as discussed in Note 15, the Imagine Cleveland Academy had its operations suspended by its sponsor, and will continue as a going concern.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Imagine Cleveland 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 Imagine Cleveland 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 Imagine Cleveland 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.

Governing Board
Imagine Cleveland Academy

Compliance and Other Matters

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 26, 2016



Dave Yost • Auditor of State

IMAGINE CLEVELAND 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
MAY 3, 2016**