



OHIO AUDITOR OF STATE
KEITH FABER



**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY
JUNE 30, 2019**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Bella Academy of Excellence
Cuyahoga County
19114 Bella Drive
Cleveland, Ohio 44119

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Bella Academy of Excellence, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2019, 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 Bella Academy of Excellence, Cuyahoga County as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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 April 10, 2020, 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.



Keith Faber
Auditor of State

Columbus, Ohio

April 10, 2020

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
UNAUDITED

The discussion and analysis of the Bella Academy of Excellence (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2019. 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 2019 are as follows:

- In total, net position was deficit \$2,221,056 at June 30, 2019.
- The Academy had operating revenues of \$2,283,159, operating expenses of \$3,296,293, and non-operating revenues of \$1,366,528 for fiscal year 2019.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 2019?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in net 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.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
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The table below provides a summary of the Academy's net position for fiscal year 2019 and 2018.

	Net Position	
	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets	\$ 37,331	\$ 48,234
Non-current assets	<u>131,195</u>	<u>-</u>
Total assets	<u>168,526</u>	<u>48,234</u>
<u>Deferred outflows of resources</u>	<u>636,412</u>	<u>818,758</u>
<u>Liabilities</u>		
Current liabilities	32,026	44,460
Non-current liabilities	<u>2,411,618</u>	<u>3,016,093</u>
Total liabilities	<u>2,443,644</u>	<u>3,060,553</u>
<u>Deferred inflows of resources</u>	<u>582,350</u>	<u>380,889</u>
<u>Net Position</u>		
Unrestricted (deficit)	<u>(2,221,056)</u>	<u>(2,574,450)</u>
Total net position (deficit)	<u>\$ (2,221,056)</u>	<u>\$ (2,574,450)</u>

The net pension liability is reported pursuant to Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." The net other postemployment benefits (OPEB) liability/asset is reported pursuant to GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." 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 and the net OPEB asset.

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/asset to equal the Academy's proportionate share of each plan's collective:

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.

**BELLA ACADEMY OF EXCELLENCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
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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 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/asset, respectively, not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019 and 2018, the Academy's net position totaled deficits of (\$2,221,056) and (\$2,574,450), respectively.

Current assets represent cash, accounts and intergovernmental receivables. Current liabilities represent accounts and intergovernmental payables for management fees, sponsorship fees and legal fees. Refer to Notes 2.J, Note 5, Note 9.A and Note 9.B. for detail on the current receivables and payables.

Non-current assets at fiscal year-end include a net OPEB asset reported by the State Teachers Retirement System (STRS). See Note 7 for more detail. STRS did not report a net pension asset in the prior year.

Deferred outflows related to pension decreased primarily due to changes in assumptions by STRS. See Note 6 for more detail.

Long-term liabilities represent the net pension liability (see Note 6 for detail) and the net OPEB liability (see Note 7 for detail). Refer to Note 10 for a summary of the changes in the Academy's long-term obligations during fiscal year 2019.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
UNAUDITED

Deferred inflows related to OPEB increased primarily due to changes in assumptions by STRS. See Note 7 for more detail.

The table below shows the changes in net position for fiscal years 2019 and 2018.

Change in Net Position

	2019	2018
<u>Operating Revenues:</u>		
State foundation	\$ 2,283,159	\$ 2,514,627
Total operating revenue	2,283,159	2,514,627
<u>Operating Expenses:</u>		
Management fees	2,573,271	1,148,848
Sponsorship fees	66,802	73,503
Legal	23,608	20,524
Professional services	34,194	34,639
Operating lease payments	589,335	603,001
Other	9,083	7,721
Total operating expenses	3,296,293	1,888,236
<u>Non-operating Revenues:</u>		
Private contributions - Imagine Schools	803,974	-
Federal and State grants	562,554	522,481
Total non-operating revenues	1,366,528	522,481
Change in net position	353,394	1,148,872
Net position (deficit) at beginning of year	(2,574,450)	(3,723,322)
Net position (deficit) at end of year	\$ (2,221,056)	\$ (2,574,450)

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from Federal entitlement programs. During fiscal year 2019, the Academy provided services to 279 students, compared to 309 students in 2018. The decrease in enrollment resulted in the decrease in State foundation revenue in fiscal year 2019.

The Academy relies on State foundation revenues for operations, with 62.56% and 82.80% of total revenues coming from State foundation for fiscal years 2019 and 2018, respectively. Federal and state grants include monies received from the Child Nutrition Cluster, IDEA-B, Title I-A, Title IV-A and Title II-A programs. The Academy contracted with Imagine Schools, Inc. for management services for fiscal years 2019 and 2018 (see Note 9.B to the notes to the financial statements for detail). The Academy received \$803,974 in private contributions from Imagine Schools, Inc. for the payment of direct expenses during fiscal year 2019.

Overall, expenses increased \$1,408,057 during fiscal year 2019. This increase is primarily the result of a decrease in student enrollment (causing an decrease in operating expenses) coupled with the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50% in 2018. These benefit changes caused a decrease to the net pension liability reported at June 30, 2018 and the subsequent expenses reported for fiscal year 2018.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
UNAUDITED

The Academy reported \$101,250 and (\$896,299) in pension expense for fiscal years 2019 and 2018, respectively. In addition, the Academy reported (\$284,235) and (\$99,619) in OPEB expense for fiscal year 2019 and 2018, respectively. The net increase in both the net pension expense and the OPEB expense from fiscal year 2018 to fiscal year 2019 was \$812,933. This increase is primarily the result of the benefit changes by the retirement systems. Fluctuations in the pension and OPEB expense makes it difficult to compare financial information between years. Pension and OPEB expense are components of program expenses reported on the statement of activities.

Debt

The Academy had no debt obligations outstanding at June 30, 2019, or June 30, 2018.

Capital Assets

The Academy had no capital assets over the threshold to report at June 30, 2019, or June 30, 2018.

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 St. Aloysius Orphanage. The Academy is reliant upon State foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its 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. Dan Lamb, Treasurer, Charter School Specialists, 19114 Bella Drive, Cleveland, Ohio 44119.

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**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2019

Assets:	
Current assets:	
Cash	\$ 4,834
Receivables:	
Accounts	2,458
Intergovernmental.	30,039
Total current assets	<u>37,331</u>
Non-current assets:	
Net OPEB asset.	<u>131,195</u>
Total assets	<u>168,526</u>
Deferred outflows of resources:	
Pension	612,096
OPEB.	<u>24,316</u>
Total deferred outflows of resources	<u>636,412</u>
Liabilities:	
Current liabilities:	
Accounts payable.	29,568
Intergovernmental payable	2,458
Total current liabilities	<u>32,026</u>
Long-term liabilities:	
Net pension liability.	2,218,013
Net OPEB liability	193,605
Total long-term liabilities	<u>2,411,618</u>
Total liabilities.	<u>2,443,644</u>
Deferred inflows of resources:	
Pension	330,121
OPEB	<u>252,229</u>
Total deferred inflows of resources	<u>582,350</u>
Net position:	
Unrestricted (deficit)	<u>(2,221,056)</u>
Total net position (deficit).	<u>\$ (2,221,056)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Operating revenues:	
State foundation	\$ 2,283,159
Total operating revenues	2,283,159
 Operating expenses:	
Purchased services - management fees	2,573,271
Sponsorship fees	66,802
Legal	23,608
Professional services	34,194
Operating lease payments.	589,335
Other	9,083
Total operating expenses.	3,296,293
 Operating (loss)	 (1,013,134)
 Non-operating revenues:	
Private contributions - Imagine Schools	803,974
Federal and State grants.	562,554
Total non-operating revenues	1,366,528
 Change in net position.	 353,394
 Net position (deficit) at beginning of year. . .	 (2,574,450)
 Net position (deficit) at end of year	 \$ (2,221,056)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Cash received from State foundation	\$ 2,278,028
Cash payments for purchased services - management fees.	(2,130,807)
Cash payments for sponsorship fees	(66,648)
Cash payments for legal fees	(23,644)
Cash payments for professional services	(34,194)
Cash payments for operating lease	(589,335)
Cash payments for other expenses	(9,083)
	<hr/>
Net cash used in operating activities	(575,683)
 Cash flows from noncapital financing activities:	
Cash received from Federal and State grants.	575,678
	<hr/>
Net cash provided by noncapital financing activities.	575,678
	<hr/>
Net decrease in cash	(5)
 Cash at beginning of year	 4,839
Cash at end of year.	\$ 4,834
	<hr/> <hr/>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,013,134)
Adjustments:	
Private contributions - Imagine Schools	803,974
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
(Increase) in accounts receivable.	(958)
(Increase) in intergovernmental receivable.	(1,268)
(Increase) in net OPEB asset.	(131,195)
Decrease in deferred outflows - pensions	184,355
(Increase) in deferred outflows - OPEB	(2,009)
(Decrease) in accounts payable.	(13,392)
Increase in intergovernmental payable	958
(Decrease) in net pension liability	(279,330)
(Decrease) in net OPEB liability	(325,145)
Increase in deferred inflows - pensions.	29,432
Increase in deferred inflows - OPEB	172,029
	<hr/>
Net cash used in operating activities	\$ (575,683)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Bella Academy of Excellence (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy provides students with an academically excellent opportunity by offering challenging curriculum richly infused with math, arts, science and technology and designed to engage all in the learning process; by maintaining a caring learning environment of affirmation; by working with parents and local communities to offer opportunities both in and out of the classroom that further develop the intellect and character of the students who choose to attend the school; and by utilizing innovative teaching techniques delivered by superior faculty in order to prepare all students for success in the ever-growing global community of the future. 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 was approved under contract with St. Aloysius (the “Sponsor”) commencing on May 15, 2009 and ending on June 30, 2010. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2014. The contract was renewed on June 30, 2014, for a term of one year ending on June 30, 2015. On May 26, 2015 the contract was renewed for a term of one year and will automatically renew for one additional term through June 30, 2017. The contract was renewed for a term of three years commencing July 1, 2017 through June 30, 2020. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a Governing Board which must contain at least five Directors 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 279 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.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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 government-wide statement of net position will 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/expenditure) until then. For the Academy, see Notes 6 and 7 for deferred outflows of resources related to the Academy's net pension liability and net OPEB liability/asset, respectively.

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, differences between Academy contributions and proportionate share of contributions and changes in proportionate share related to the Academy's net pension liability and net OPEB liability/asset, see Notes 6 and 7, respectively, for detail.

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. Each year, the Academy Governing Board, with the assistance of the Academy's designated fiscal officer, is required to adopt an annual budget by the thirty-first day of October using the format and following the guidelines prescribed by the Ohio Department of Education. Chapter 5705.39 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 (ODE).

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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 fiscal year 2019.

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 \$5,000. 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 June 30, 2019.

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 Program, Opportunity Grant, Targeted Assistance, Special Education, K-3 Literacy Funding, Economic Disadvantaged, Third Grade Reading Bonus, and Facilities Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2019 school year totaled \$2,283,159.

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 fiscal year 2019 was \$562,554.

J. Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net position. Accrued liabilities include accounts payable (e.g. amounts due to Imagine Schools Inc. as further described in Note 9.B., sponsor fees, and legal fees) and intergovernmental payables (e.g. amounts due to the School Employees Retirement System (SERS) and the State Teachers Retirement System (STRS)). Long-term obligations are detailed in Note 10. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, net OPEB asset, deferred outflows of resources and deferred inflows of resources related pensions/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.

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 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2019, the Academy has implemented GASB Statement No. 83, “Certain Asset Retirement Obligations” and GASB Statement No. 88, “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”.

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Academy.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Academy.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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 June 30, 2019, the carrying amount of the Academy's deposits and the bank balance was \$4,834. 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

Receivables at June 30, 2019, consisted of intergovernmental receivables (e.g. grants and entitlements and amounts due from ODE and SERS) and accounts receivable from Imagine Schools, Inc. and the Academy's Sponsor. All receivables are considered collectible in full.

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.

The 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.

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NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - The 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.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or 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; or 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 years of service; 2.2% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% 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% for plan members and 14% 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$31,944 for fiscal year 2019.

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

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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 website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The Academy was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$134,849 for fiscal year 2019.

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, 2018, 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 projected 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>
Proportion of the net pension liability prior measurement date	0.00721200%	0.00869890%	
Proportion of the net pension liability current measurement date	<u>0.00738270%</u>	<u>0.00816451%</u>	
Change in proportionate share	<u>0.00017070%</u>	<u>-0.00053439%</u>	
Proportionate share of the net pension liability	\$ 422,821	\$ 1,795,192	\$ 2,218,013
Pension expense	\$ (3,473)	\$ 104,723	\$ 101,250

At June 30, 2019, 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	\$ 23,189	\$ 41,441	\$ 64,630
Changes of assumptions	9,549	318,143	327,692
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	6,008	46,973	52,981
Contributions subsequent to the measurement date	<u>31,944</u>	<u>134,849</u>	<u>166,793</u>
Total deferred outflows of resources	<u>\$ 70,690</u>	<u>\$ 541,406</u>	<u>\$ 612,096</u>

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 11,723	\$ 11,723
Net difference between projected and actual earnings on pension plan investments	11,717	108,861	120,578
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>31,183</u>	<u>166,637</u>	<u>197,820</u>
Total deferred inflows of resources	<u>\$ 42,900</u>	<u>\$ 287,221</u>	<u>\$ 330,121</u>

\$166,793 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 year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2020	\$ 12,183	\$ 86,236	\$ 98,419
2021	1,130	96,179	97,309
2022	(13,875)	(17,337)	(31,212)
2023	(3,592)	(45,741)	(49,333)
2020	<u>-</u>	<u>(1)</u>	<u>(1)</u>
Total	<u>\$ (4,154)</u>	<u>\$ 119,336</u>	<u>\$ 115,182</u>

Actuarial Assumptions - SERS

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

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation COLA or ad hoc COLA	3.50% to 18.20%
Investment rate of return	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Actuarial cost method	7.50% net of investments expense, including inflation Entry age normal (level percent of payroll)

For 2018, the mortality rates were based on 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% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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 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.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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%. 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 (7.50%). 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 7.50%, 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%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 595,575	\$ 422,821	\$ 277,978

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

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

Asset Class	Target Allocation**	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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 7.45%, 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 (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$ 2,621,642	\$ 1,795,192	\$ 1,095,715

NOTE 7 - DEFINED BENEFIT OPEB 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 OPEB 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 OPEB Liability/Asset

The net OPEB liability/asset reported on the statement of net position represents a liability/asset 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

The net OPEB liability/asset 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/asset 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.

The 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/asset. Resulting adjustments to the net OPEB liability/asset 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* or *net OPEB asset*. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable*.

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.

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CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

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% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% 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 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Academy's surcharge obligation was \$902.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$2,085 for fiscal year 2019. Of this amount, \$902 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. 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 discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability/asset was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. On the following page is information related to the proportionate share and OPEB expense:

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.00668290%	0.00869890%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.00697860%</u>	<u>0.00816451%</u>	
Change in proportionate share	<u>0.00029570%</u>	<u>-0.00053439%</u>	
Proportionate share of the net OPEB liability	\$ 193,605	\$ -	\$ 193,605
Proportionate share of the net OPEB asset	\$ -	\$ (131,195)	\$ (131,195)
OPEB expense	\$ 4,182	\$ (288,417)	\$ (284,235)

At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 3,160	\$ 15,323	\$ 18,483
Difference between employer contributions and proportionate share of contributions/change in proportionate share	3,748	-	3,748
Contributions subsequent to the measurement date	<u>2,085</u>	<u>-</u>	<u>2,085</u>
Total deferred outflows of resources	<u>\$ 8,993</u>	<u>\$ 15,323</u>	<u>\$ 24,316</u>

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 7,644	\$ 7,644
Net difference between projected and actual earnings on pension plan investments	289	14,987	15,276
Changes of assumptions	17,395	178,764	196,159
Difference between employer contributions and proportionate share of contributions/change in proportionate share	<u>10,678</u>	<u>22,472</u>	<u>33,150</u>
Total deferred inflows of resources	<u>\$ 28,362</u>	<u>\$ 223,867</u>	<u>\$ 252,229</u>

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

\$2,085 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/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2020	\$ (12,453)	\$ (37,174)	\$ (49,627)
2021	(9,453)	(37,174)	(46,627)
2022	55	(37,173)	(37,118)
2023	177	(33,770)	(33,593)
2024	158	(32,575)	(32,417)
Thereafter	62	(30,678)	(30,616)
Total	\$ (21,454)	\$ (208,544)	\$ (229,998)

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.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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 discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. 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% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% 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, 2026. 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, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. 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 (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Academy's proportionate share of the net OPEB liability	\$ 234,925	\$ 193,605	\$ 160,888

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
Academy's proportionate share of the net OPEB liability	\$ 156,204	\$ 193,605	\$ 243,131

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018	July 1, 2017
Inflation	2.50%	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%	3.00%
Cost-of-living adjustments (COLA)	0.00%	0.00%, effective July 1, 2017
Discounted rate of return	7.45%	N/A
Blended discount rate of return	N/A	4.13%
Health care cost trends		6 to 11% initial, 4.50% ultimate
	Initial	Ultimate
Medical		
Pre-Medicare	6.00%	4.00%
Medicare	5.00%	4.00%
Prescription Drug		
Pre-Medicare	8.00%	4.00%
Medicare	-5.23%	4.00%

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

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

Asset Class	Target Allocation**	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net OPEB asset	\$ 112,447	\$ 131,195	\$ 146,953

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB asset	\$ 146,063	\$ 131,195	\$ 116,096

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 fiscal year 2019, the Academy maintained the following coverage: general liability, automobile liability, excess/umbrella liability and property liability through Philadelphia Indemnity Insurance Co.; and workers compensation and employers' liability through Travelers Casualty Insurance Co. of America.

Coverage	Limits of Coverage
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

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RISK MANAGEMENT - (Continued)

<u>Coverage - (Continued)</u>	<u>Limits of Coverage</u>
Automobile liability:	
Combined single limit - each accident	\$1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Retention	10,000
Property liability:	
Personal property limit	400,000
Deductible	5,000
Business income with extra expense limit	1,500,000
Workers' compensation and employers' liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

Settled claims have not exceeded commercial coverage in the past three years. There has been no reduction in coverage from the prior year.

NOTE 9 - CONTRACTS

A. Sponsor Contract

The Academy entered into a sponsorship contract commencing on May 15, 2009 and ending on June 30, 2010 with St. Aloysius Orphanage (the "Sponsor") for its establishment. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2014. The contract was renewed on June 30, 2014, for a term of one year ending on June 30, 2015. On May 26, 2015 the contract was renewed for a term of one year and will automatically renew for one additional term through June 30, 2017. The contract was renewed for a term of three years commencing July 1, 2017 through June 30, 2020. 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;
- 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);

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - CONTRACTS - (Continued)

- 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;
- 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; and
- Abide by the requirements of its contract with the Ohio Department of Education, even should those requirements affect the Academy.

The Academy paid the Sponsor \$66,802 for services during fiscal year 2019, including \$249 in accounts payable at June 30, 2019. This payable consists of an intergovernmental receivable (amount due from ODE) to be transferred to the Sponsor, in accordance with the sponsorship contract.

B. Management Contract

The Academy entered into a management contract with Imagine Schools, Inc. for management consulting services. 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 77 percent of the total per pupil allowance received from the State of Ohio and 100 percent of State and/or Federal grant funds received by the Academy for the creation and operation of its school. Payments to Imagine Schools, Inc. amounted to \$2,573,271 during fiscal year 2019.

At June 30, 2019, the Academy reported accounts payable to Imagine Schools, Inc. in the amount of \$27,463. This payable consists of intergovernmental receivables (grants and amounts due from ODE and SERS) to be transferred to Imagine Schools, Inc. to cover expenses incurred by Imagine Schools, Inc. on the Academy's behalf, in accordance with the operating contract.

At June 30, 2019, the Academy had accounts receivable of \$2,458 from Imagine Schools, Inc. to cover the intergovernmental payable related to the SERS surcharge liability and STRS true-up, in accordance with the operating contract.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - CONTRACTS - (Continued)

C. Service Contract

The Academy entered into a service contract for a period of twelve months, commencing on July 1, 2017 and ending on June 30, 2018, with Charter School Specialists, LLC (CSS), to provide fiscal and Comprehensive Continuous Improvement Planning consulting services. The Academy paid CSS \$31,034 during fiscal year 2019 for these services.

NOTE 10 - LONG-TERM OBLIGATIONS

The following changes occurred in the long-term obligations during fiscal year 2019:

	Balance			Balance	Amounts
	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Due in</u> <u>One Year</u>
Net pension liability:					
STRS	\$ 2,066,442	\$ -	\$ (271,250)	\$ 1,795,192	\$ -
SERS	430,901	-	(8,080)	422,821	-
Total net pension liability	<u>2,497,343</u>	<u>-</u>	<u>(279,330)</u>	<u>2,218,013</u>	<u>-</u>
Net OPEB liability:					
STRS	339,399	-	(339,399)	-	-
SERS	179,351	14,254	-	193,605	-
Total net OPEB liability	<u>518,750</u>	<u>14,254</u>	<u>(339,399)</u>	<u>193,605</u>	<u>-</u>
Total long-term obligations	<u>\$ 3,016,093</u>	<u>\$ 14,254</u>	<u>\$ (618,729)</u>	<u>\$ 2,411,618</u>	<u>\$ -</u>

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

Net OPEB Liability: See Note 7 for information on the Academy's net OPEB liability.

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**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 11 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2019, Imagine Schools, Inc. incurred the following expenses (reported below on cash-basis) on behalf of the Academy:

<u>Direct Expenses:</u>	
Salaries and wages	
Instruction	\$ 818,063
Support services	147,729
Administrative services	111,477
Operations and maintenance	15,112
Employees' benefits	
Instruction	272,500
Support services	45,427
Administrative services	58,109
Operations and maintenance	5,556
Purchased services	
Instruction	92,315
Support services	109,876
Administrative services	229,119
Fiscal/business services	7,172
Operations and maintenance	124,930
Pupil transportation	3,487
Support/food services	166,069
Supplies and materials	
Instruction	19,412
Administrative services	8,568
Operations and maintenance	8,159
Other direct costs	
Instruction	147,111
Administrative services	177,690
Fiscal/business services	5,256
Support/food services	<u>134</u>
Total expenses	<u>\$ 2,573,271</u>

Overhead charges 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. The Academy received \$803,974 in private contributions from Imagine Schools, Inc. during fiscal year 2019 for the payment of direct expenses.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - OPERATING LEASES

A. Schoolhouse Finance, LLC

On June 13, 2014, the Academy entered into a sublease agreement with Schoolhouse Finance, LLC (“SHF”) to lease classroom space for the Academy. The term of the sublease commenced on July 1, 2014, and continues through June 30, 2019. Notwithstanding any provision to the contrary, the sublease shall automatically terminate upon the expiration or termination of the lease for any reason. The Academy shall pay to SHF \$545,545, \$551,001, \$556,511, \$562,076, and \$567,697 in annual base rent for fiscal years 2015 through 2019, respectively, payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term. The Academy shall also reimburse SHF for any additional rent as follows: real property tax and assessments, personal property and other taxes, insurance premiums, utilities and services, and other expenses. During fiscal year 2019, the Academy and SHF entered into an agreement to terminate the lease early with an effective date of December 31, 2018.

On June 13, 2014, the Academy entered into an amendment of the sublease agreement entered into on July 1, 2011, with SHF to extend the lease for additional classroom space for the Academy for a period of an additional two years. The term of the amended sublease commenced on July 1, 2014 and continues through June 30, 2016. Notwithstanding any provision to the contrary, the sublease shall automatically terminate upon the expiration or termination of the lease for any reason. For fiscal years 2015 and 2016, the Academy shall pay to SHF \$47,059 and \$47,995, respectively, in annual base rent payable in advance in monthly installments of one-twelfth each on the first day of each month of the term. The Academy shall also pay additional rent for operating expenses, real property tax and assessments, personal property and other taxes, insurance premiums, and utilities.

On April 6, 2017, the Academy entered into a sublease agreement with SHF to extend the lease for additional classroom space for the Academy for a period of an additional two years. The term of the amended sublease commenced on April 1, 2017 and ends on June 30, 2019. Notwithstanding any provision to the contrary, the sublease shall automatically terminate upon the expiration or termination of the lease for any reason. The Academy shall pay to SHF \$3,900 in monthly installments in base rent payable in advance of the first day of each month of the term. The Academy shall also pay additional rent for operating expenses, real property tax and assessments, personal property and other taxes, insurance premiums, and utilities. During fiscal year 2019, the Academy and SHF entered into an agreement to terminate the lease early with an effective date of December 31, 2018.

During fiscal year 2019 the Academy paid 304,438 to SHF.

B. Charter Schools Development Corporation

On January 1, 2019, the Academy entered into a lease agreement with Charter Schools Development Corporation (CSDC) to lease three lots of property to provide classroom space for the Academy. The term of the lease commenced on January 1, 2019 and ends on June 30, 2024. The Academy agrees to vacate the leased premises at the end of the lease term in the condition required of the lease agreement. The base rent is due on the first day of each calendar month during the lease term. The Academy shall also pay additional rent for operating expenses, real property tax and assessments, personal property and other taxes, insurance premiums, and utilities.

During fiscal year 2019 the Academy paid \$284,897 to CSDC.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - OPERATING LEASES - (Continued)

The lease payments due over the term of the lease are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$519,880
2021	525,078
2022	530,329
2023	535,632
2024	540,989

NOTE 13 - 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, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2019, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

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 ODE is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2019.

As a result of the fiscal year 2019 reviews to-date, the Academy is due \$8,310 from ODE. This amount has been recorded as an intergovernmental receivable at June 30, 2019.

In addition, the Academy's contracts with the Sponsor and Imagine Schools, Inc. require payment based on revenues received from the State. As a result of the fiscal year 2019 reviews, the Academy has recorded accounts payable in the amount of \$5,734 and \$249 to Imagine Schools, Inc. and the Sponsor, respectively, at June 30, 2019.

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.

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 14 - FEDERAL TAX STATUS

The Academy was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on November 3, 2010. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

NOTE 15 - MANAGEMENT PLAN

The Academy had an increase of \$353,394 in net position and deficit net position of \$2,221,056 at June 30, 2019. The deficit net position is primarily due to the net pension liability of \$2,218,013, net OPEB liability of \$193,605, deferred outflows of resources and deferred inflows of resources related to the net pension liability and net OPEB liability/asset of \$636,412 and \$582,350, respectively, at June 30, 2019. The net pension liability, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are required to be reported in accordance with GASB Statements No. 68 and 71, as described in Note 6 and GASB Statement No. 75, as described in Note 7. Management intends to continue to increase Academy enrollment and improve operating efficiencies.

NOTE 16 - RELATED PARTY TRANSACTIONS

Imagine Schools, Inc. and Schoolhouse Finance, LLC are both subsidiaries of Imagine Schools Non-Profit, Inc.

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**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Academy's proportion of the net pension liability	0.00738270%	0.00721200%	0.00788180%	0.00874390%
Academy's proportionate share of the net pension liability	\$ 422,821	\$ 430,901	\$ 576,875	\$ 498,935
Academy's covered payroll	\$ 242,770	\$ 236,621	\$ 244,779	\$ 263,232
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	174.17%	182.11%	235.67%	189.54%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	62.98%	69.16%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.01000000%	0.01000000%
\$ 506,094	\$ 594,668
\$ 290,584	\$ 276,171
174.16%	215.33%
71.70%	65.52%

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Academy's proportion of the net pension liability	0.00816451%	0.00869890%	0.00878866%	0.00837465%
Academy's proportionate share of the net pension liability	\$ 1,795,192	\$ 2,066,442	\$ 2,941,829	\$ 2,314,508
Academy's covered payroll	\$ 861,671	\$ 956,336	\$ 924,736	\$ 873,664
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	208.34%	216.08%	318.13%	264.92%
Plan fiduciary net position as a percentage of the total pension liability	77.31%	75.30%	66.80%	72.10%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.00943074%	0.00943074%
\$ 2,293,882	\$ 2,732,458
\$ 963,562	\$ 988,200
238.06%	276.51%
74.70%	69.30%

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 31,944	\$ 32,774	\$ 33,127	\$ 34,269
Contributions in relation to the contractually required contribution	<u>(31,944)</u>	<u>(32,774)</u>	<u>(33,127)</u>	<u>(34,269)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 236,622	\$ 242,770	\$ 236,621	\$ 244,779
Contributions as a percentage of covered payroll	13.50%	13.50%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 34,694	\$ 40,275	\$ 38,222	\$ 40,562	\$ 26,317	\$ 28,724
<u>(34,694)</u>	<u>(40,275)</u>	<u>(38,222)</u>	<u>(40,562)</u>	<u>(26,317)</u>	<u>(28,724)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 263,232	\$ 290,584	\$ 276,171	\$ 301,576	\$ 209,364	\$ 212,142
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 134,849	\$ 120,634	\$ 133,887	\$ 129,463
Contributions in relation to the contractually required contribution	<u>(134,849)</u>	<u>(120,634)</u>	<u>(133,887)</u>	<u>(129,463)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 963,207	\$ 861,671	\$ 956,336	\$ 924,736
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 122,313	\$ 125,263	\$ 128,466	\$ 119,541	\$ 86,714	\$ 42,930
<u>(122,313)</u>	<u>(125,263)</u>	<u>(128,466)</u>	<u>(119,541)</u>	<u>(86,714)</u>	<u>(42,930)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 873,664	\$ 963,562	\$ 988,200	\$ 919,546	\$ 667,031	\$ 330,231
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability	0.00697860%	0.00668290%	0.00735546%
Academy's proportionate share of the net OPEB liability	\$ 193,605	\$ 179,351	\$ 209,658
Academy's covered payroll	\$ 242,770	\$ 236,621	\$ 244,779
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	79.75%	75.80%	85.65%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability/asset	0.00816451%	0.00869890%	0.00878866%
Academy's proportionate share of the net OPEB liability/(asset)	\$ (131,195)	\$ 339,399	\$ 470,020
Academy's covered payroll	\$ 861,671	\$ 956,336	\$ 924,736
Academy's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	15.23%	35.49%	50.83%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	176.00%	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 2,085	\$ 2,714	\$ 702	\$ 1,011
Contributions in relation to the contractually required contribution	<u>(2,085)</u>	<u>(2,714)</u>	<u>(702)</u>	<u>(1,011)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 236,622	\$ 242,770	\$ 236,621	\$ 244,779
Contributions as a percentage of covered payroll	0.88%	1.12%	0.30%	0.41%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 6,091	\$ 439	\$ 442	\$ 1,659	\$ 3,449	\$ 976
<u>(6,091)</u>	<u>(439)</u>	<u>(442)</u>	<u>(1,659)</u>	<u>(3,449)</u>	<u>(976)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 263,232	\$ 290,584	\$ 276,171	\$ 301,576	\$ 209,364	\$ 212,142
2.31%	0.15%	0.16%	0.55%	1.65%	0.46%

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 963,207	\$ 861,671	\$ 956,336	\$ 924,736
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ -	\$ 10,335	\$ 9,882	\$ 9,203	\$ 6,670	\$ 3,302
-	(10,335)	(9,882)	(9,203)	(6,670)	(3,302)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 873,664	\$ 963,562	\$ 988,200	\$ 919,546	\$ 667,031	\$ 330,231
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) 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% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2019.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2019.

(Continued)

**BELLA ACADEMY OF EXCELLENCE
CUYAHOGA COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) 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, (f) 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% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate.

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OHIO AUDITOR OF STATE KEITH FABER



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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

Bella Academy of Excellence
Cuyahoga County
19114 Bella Drive
Cleveland, Ohio 44119

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 Bella Academy of Excellence, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 10, 2020.

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

April 10, 2020

OHIO AUDITOR OF STATE KEITH FABER



BELLA ACADEMY OF EXCELLENCE

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 12, 2020**