PROMISE ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

PROMISE ACADEMY
CUYAHOGA COUNTY

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OHIO AUDITOR OF STATE
KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

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

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 March 20, 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

March 20, 2020

The Management's Discussion and Analysis (MD&A) of Promise Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the period ending June 30, 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 basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

Financial Highlights

- Total net position increased $142,442 from 2018 net position.

- Total assets decreased $585,280 during 2019.

- Total liabilities decreased $665,872 during 2019.

Using this Financial Report

This report consists of required supplementary information, basic financial statements, notes to the basic financial statements and notes to the required supplementary information. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Statement of Net Position

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

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Table 1 provides a summary of the Academy's Statement of Net Position for fiscal years 2019 and 2018.

(Table 1)
Statement of Net Position

	2019	2018	Change
Assets			
Current Assets	$ 811,525	$ 1,408,448	$ (596,923)
Capital Assets, net	275,799	264,156	11,643
Total Assets	1,087,324	1,672,604	(585,280)
Deferred Outflows	106,381	37,259	69,122
Liabilities			
Current Liabilities	179,936	734,123	(554,187)
Long Term Liabilities	467,717	579,402	(111,685)
Total Liabilities	647,653	1,313,525	(665,872)
Deferred Inflows	9,781	2,509	7,272
Net Position			
Investment in Capital Assets	275,799	264,156	11,643
Unrestricted	260,472	129,673	130,799
Total Net Position	$ 536,271	$ 393,829	$ 142,442

The net pension liability (NPL) is one of the liabilities reported by the Academy at June 30, 2019 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. In a prior period, the Academy adopted 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.

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

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

Current assets and current liabilities decreased significantly from a decrease in cash and cash equivalents used to pay down the current portion of the purchased services agreement with Cleveland Municipal School District ("Cleveland MSD"). The decrease in long-term liabilities is also related to the decrease in long-term portion of purchased services agreement.

The fluctuations in pension and OPEB accruals are due to changes in the actuarial liabilities and related accruals that are passed through to the Academy's financial statements. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

Table 2 shows the changes in net position for fiscal years 2019 and 2018. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

(Table 2)
Change in Net Position

	2019	2018	Change
Operating Revenue	$ 1,683,418	$ 1,760,479	$ (77,061)
Non-Operating Revenue	298,552	263,558	34,994
Total Revenue	1,981,970	2,024,037	(42,067)
Operating Expenses	1,839,528	2,563,010	(723,482)
Income (Loss) Before Special Item	142,442	(538,973)	681,415
Special Item	0	752,332	(752,332)
Change in Net Position	$ 142,442	$ 213,359	$ (70,917)

In 2018, majority of operating expenses were contracted services since the Academy remitted most of its revenue to the Cleveland MSD for reimbursed costs on behalf of the Academy to provide instruction and other costs for the use of their staff. Effective for fiscal year 2019, the Academy no longer contracted through Cleveland MSD and handled all its expenses in-house. The transition of this resulted in a decrease of approximately $1,500,000 only partially offset by combined increases in salaries, benefits and purchased services of over $800,000.

Fluctuations in fringe benefits were also impacted by changes in the Academy's proportionate share of the net pension liability, net OPEB liability and related accruals. As previously indicated, these items are explained in detail within their respective notes.

Capital Assets

The Academy's capital assets, net of accumulated depreciation, consisted of leasehold improvements of $275,799 and $264,156 for fiscal years 2019 and 2018, respectively, along with fully depreciated furniture and fixtures.

Detailed information regarding capital asset activity is included in the Note 5 in the notes to the basic financial statements.

Debt

The Academy's only outstanding long-term obligation is purchased services agreement disclosed in Note 11 in the notes to the basic financial statements.

Contacting the Academy's Financial Management

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

Promise Academy
Cuyahoga County, Ohio
Statement of Net Position
June 30, 2019

ASSETS		
Current Assets		
Cash & Cash Equivalents	$	686,364
Intergovernmental Receivable		6,804
Grant Funding Receivable		112,110
Prepaid Insurance		6,247
Total Current Assets		811,525
Noncurrent Assets		
Capital Assets, net		275,799
Total Assets		1,087,324
DEFERRED OUTFLOWS OF RESOURCES		
Pension		101,669
OPEB		4,712
Total Deferred Outflows of Resources		106,381
LIABILITIES		
Current Liabilities		
Accounts Payable		21,665
Accrued Wages and Benefits		53,647
Intergovernmental Payable		4,624
Purchased Services Agreement Payable		100,000
Total Current Liabilities		179,936
Long Term Liabilities		
Net Pension Liability		46,258
Net OPEB Liability		21,459
Purchased Services Agreement Payable, Net of Current Portion		400,000
Total Long Term Liabilities		467,717
Total Liabilities		647,653
DEFERRED INFLOWS OF RESOURCES		
Pension		5,628
OPEB		4,153
Total Deferred Inflows of Resources		9,781
NET POSITION		
Investment in Capital Assets		275,799
Unrestricted Net Position		260,472
Total Net Position	$	536,271

See accompanying notes to the basic financial statements.

Promise Academy
Cuyahoga County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

OPERATING REVENUES		
Foundation Payments	$	1,633,685
Facilities Funding		38,287
Casino Revenue		11,446
Total Operating Revenues		1,683,418
OPERATING EXPENSES		
Salaries and Wages		646,758
Fringe Benefits		100,931
Purchased Services		958,228
Supplies and Materials		43,599
Depreciation		42,168
Capital Outlay		21,588
Other Expenses		26,256
Total Operating Expenses		1,839,528
Operating Income (Loss)		(156,110)
NON-OPERATING REVENUES		
State and Federal Grants		150,452
Personal Property Taxes		148,048
Interest		52
Total Non-Operating Revenues		298,552
Change in Net Position		142,442
Net Position Beginning of Year		393,829
Net Position End of Year	$	536,271

See accompanying notes to the basic financial statements.

Promise Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From State of Ohio	$	1,651,425
Cash Payments To Suppliers For Goods And Services		(1,004,855)
Cash Payments To Other Operating Expenses		(32,503)
Cash Payments for Salaries and Fringe Benefits		(954,345)
Net Cash Provided by (Used For) Operating Activities		(340,278)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Cash Payments For Capital Acquisitions		(53,811)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received from State and Federal Grants		428,167
Cash Payments on Notes Payable		(500,000)
Net Cash Provided by (Used for) Noncapital Financing Activities		(71,833)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest		52
Net Increase (Decrease) in Cash and Cash Equivalents		(465,870)
Cash and Cash Equivalents at Beginning of Year		1,152,234
Cash and Cash Equivalents at End of Year	$	686,364
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income (Loss)	$	(156,110)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Depreciation		42,168
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:		
State Aid Receivable		14,437
Intergovernmental Receivable		(6,804)
Prepaids		(6,247)
Deferred Outflows of Resources		(69,122)
Deferred Inflows of Resources		7,272
Accounts Payable		18,560
State Aid Payable		(46,430)
Intergovernmental Payable		(179,964)
Accrued Wages and Benefits		53,647
Net Pension/OPEB Liability		(11,685)
Total Adjustments		(184,168)
Net Cash Provided by (Used For) Operating Activities	$	(340,278)

See accompanying notes to the basic financial statements.

Note 1 - Description of Academy and Reporting Entity

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

The Academy was approved for operation under a contract with the Cleveland Municipal School District (the Sponsor). For the year ended June 30, 2018, the Academy was operating under a contract with the Sponsor that was entered into July 1, 2013 for a period of five years. This agreement was renewed through June 30, 2019. A new sponsor agreement was entered into for fiscal year 2020 (see Note 14). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Governing Board controls the Academy's one instructional facility at year end 2019 was staffed by certified full time teaching personnel who provide services to 196 students.

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

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

Measurement Focus

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

Basis of Accounting

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

Budgetary Process

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

Cash and Investments

For purposes of the Statement of Cash Flows and for the presentation on the Statement of Net Position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During fiscal year 2019, the Academy's cash equivalents were limited to a business sweep checking account.

Operating Revenues and Expenses

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

Estimates

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

Net Position

Net position represents the different between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. There was no net position restricted for enabling legislation at fiscal year-end. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at acquisition value as of the date received. The Academy maintains a capitalization threshold of $5,000. The Academy does not possess any infrastructure. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All recorded capital assets are depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

Description	Estimated Lives
Leasehold Improvements	20 Years
Furniture and Fixtures	5 Years

Liabilities

The Academy has recognized certain liabilities on its Statement of Net Position relating to expenses which are due but unpaid as of June 30, 2019.

Intergovernmental Revenues

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 7 and 8).

Pensions and Other Postemployment Benefits (OPEB)

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither of these occurred during fiscal year 2019.

Note 3 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, the Academy has implemented Governmental Accounting Standards Board (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 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Academy.

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the Academy's fiscal year 2019 financial statements; however, there was no effect on beginning net position.

Note 4 - Deposits

At fiscal year end June 30, 2019, the carrying amount of the Academy's deposits was $686,364. Based on the criteria described in GASB Statement No. 40, ***Deposits and Investment Risk Disclosures***.

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

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

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance 6/30/2018	Additions	Reductions	Balance 6/30/2019
Capital Assets, Being Depreciated:				
Leasehold Improvements	$798,515	$ 53,811	$ 0	$852,326
Furniture and Fixtures	11,495	0	0	11,495
Total Capital Assets, Being Depreciated	810,010	53,811	0	863,821
Less Accumulated Depreciation:				
Leasehold Improvements	(534,359)	(42,168)	0	(576,527)
Furniture and Fixtures	(11,495)	0	0	(11,495)
Total Accumulated Depreciation	(545,854)	(42,168)	0	(588,022)
Total Capital Assets Being Depreciated, Net	$264,156	$ 11,643	$ 0	$275,799

Note 6 – Risk Management

Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2019, the Academy contracted with commercial insurance companies for the following:

Commercial General Liability:

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

Education Legal/Employment Practice Liability:

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

Note 7 – Defined Benefit Pension Plan

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

The Academy's contractually required contribution to SERS was $22,405 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through 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. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. 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 DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $63,446 for fiscal year 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows/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 independent actuarial valuation as of that date. The Academy's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS
Proportion of the Net Pension Liability:		
Current Measurement Date	0.00080770%	0.00000000%
Prior Measurement Date	0.00094400%	0.00000000%
Change in Proportionate Share	-0.00013630%	0.00000000%
Proportionate Share of the Net Pension Liability	$ 46,258	$ 0
Pension Expense	$ 13,454	$ 0

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

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 2,537	$ 0	$ 2,537
Changes of Assumptions	1,044	0	1,044
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	12,237	0	12,237
Academy Contributions Subsequent to the Measurement Date	22,405	63,446	85,851
Total Deferred Outflows of Resources	$ 38,223	$ 63,446	$ 101,669
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on Pension Plan Investments	$ 1,281	$ 0	$ 1,281
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	4,347	0	4,347
Total Deferred Inflows of Resources	$ 5,628	$ 0	$ 5,628

$85,851 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	$ 10,549	$ 0	$ 10,549
2021	1,552	0	1,552
2022	(1,518)	0	(1,518)
2023	(393)	0	(393)
	$ 10,190	$ 0	$ 10,190

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is 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	100.00 %	

Discount Rate Total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Academy's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Academy's Proportionate Share of the Net Pension Liability	$ 65,159	$ 46,258	$ 30,412

Note 8 - Defined Benefit OPEB Plans

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Academy's surcharge obligation was $1,713.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was $2,543 for fiscal year 2019. Of this amount $1,713 is reported as an accounts 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 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

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

	SERS
Proportion of the Net OPEB Liability:	
Current Measurement Date	0.00077350%
Prior Measurement Date	0.00085700%
Change in Proportionate Share	-0.00008350%
Proportionate Share of the Net	
OPEB Liability/(Asset)	$ 21,459
OPEB Expense	$ 1,405

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

	SERS
Deferred Outflows of Resources	
Differences between Expected and Actual Experience	$ 350
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	1,819
Academy Contributions Subsequent to the Measurement Date	2,543
Total Deferred Outflows of Resources	$ 4,712

Deferred Inflows of Resources		SERS
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	$	32
Changes of Assumptions		1,928
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions		2,193
Total Deferred Inflows of Resources	$	4,153

$2,543 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 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:

		SERS
Fiscal Year Ending June 30:		
2020	$	(157)
2021		(232)
2022		(475)
2023		(461)
2024		(464)
Thereafter		(195)
	$	(1,984)

Actuarial Assumptions - SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

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

The long-term expected rate of return on plan 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 long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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	100.00 %	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 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 percent, 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. 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 and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	$ 26,039	$ 21,459	$ 17,833

	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	$ 17,313	$ 21,459	$ 26,948

Note 9 – Sponsorship Agreement

The Academy has a sponsorship contract with Cleveland Municipal School District (“CMSD”), effective July 1, 2013 through June 30, 2018, for educational and management services. In exchange for its time, organization, oversight, monitoring, fees, costs and other services, CMSD received three percent of the total amount of payments for operating expenses that the Academy received from the State of Ohio. The sponsorship contract was amended and expired on June 30, 2019. See Note 14.

Note 10 – Purchased Service Expenses

For the year ended June 30, 2019, purchased service expenses were payments for services rendered by various vendors as follows:

Personnel Services	$ 55,250
Sponsor Services	50,387
Facilities	27,005
Rent	149,539
Utilities	123,097
Advertising	26,069
Food Service	17,828
Legal Services	102,495
Technology Services	142,128
Other Professional Services	232,179
Other Purchased Services	32,251
Total Purchased Services	$ 958,228

Note 11 – Purchased Services Agreement

Changes in the Academy's long-term obligations during fiscal year 2019 were as follows:

	Balance 06/30/2018	Additions	Reductions	Balance 06/30/2019	Due in One Year
Direct Borrowing:					
Cleveland MSD	$ 1,000,000	$ 0	$ (500,000)	$ 500,000	$ 100,000

Purchased Services Agreement Payable Cleveland MSD

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

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

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

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

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

Fiscal Year Ending June 30,	Principal
2020	$ 100,000
2021	100,000
2022	100,000
2023	100,000
2024	100,000
Total	$ 500,000

Note 12 – Operating Lease

On August 1, 2008, the Academy entered into a lease for the current school premises under a non-cancelable agreement that expires on July 31, 2023. The Academy has the option to terminate the lease at the end of the fifth lease year for a termination fee of $100,000. The Academy also has the option to terminate the lease at the end of tenth lease year without a termination fee. Lease terms also include a renewal option for an additional five year term at a rental rate equal to 90 percent of the then market rate for a comparable office building. Rental expense under operating leases was $149,539 in fiscal 2019.

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

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

Fiscal Year Ending June 30,	2020	$	200,000
	2021		200,000
	2022		200,000
	2023		200,000
	2024		66,667
Total Minimum Lease Payments		$	866,667

Note 13 – Contingencies

Grants

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

Enrollment FTE

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

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

As of the date of this report, all ODE adjustments have been completed.

In addition, the Academy's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 are finalized.

Note 14 – Subsequent Event

Effective July 1, 2019, the School entered into a new sponsorship agreement with Buckeye Community Hope Foundation (BCHF). On October 9, 2019, BCHF placed the Academy on probation for academic expectations not met. BCHF approved the Academy's Academic Corrective Action Plan on January 20, 2020.

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

	2019	2018	2017	2016
School Employees Retirement System (SERS)				
Academy's Proportion of the Net Pension Liability	0.00080770%	0.00094400%	0.00077920%	0.00014120%
Academy's Proportionate Share of the Net Pension Liability	$ 46,258	$ 56,402	$ 57,030	$ 8,057
Academy's Covered Payroll	$ 27,704	$ 30,165	$ 30,201	$ 4,208
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	166.97%	186.98%	188.83%	191.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%

(1) Information prior to 2016 is not available.

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

See accompanying notes to the required supplementary information.

Promise Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - Pension
Last Five Fiscal Years (1)

	2019	2018	2017	2016	2015
School Employees Retirement System (SERS)					
Contractually Required Contribution	$ 22,405	$ 3,740	$ 4,223	$ 4,228	$ 589
Contributions in Relation to the Contractually Required Contribution	(22,405)	(3,740)	(4,223)	(4,228)	(589)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Academy's Covered Payroll	$ 165,963	$ 27,704	$ 30,165	$ 30,201	$ 4,208
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%	13.18%
State Teachers Retirement System (STRS)					
Contractually Required Contribution	$ 63,446	n/a	n/a	n/a	n/a
Contributions in Relation to the Contractually Required Contribution	(63,446)	n/a	n/a	n/a	n/a
Contribution Deficiency (Excess)	$ 0	n/a	n/a	n/a	n/a
Academy's Covered Payroll	$ 453,186	n/a	n/a	n/a	n/a
Pension Contributions as a Percentage of Covered Payroll	14.00%	n/a	n/a	n/a	n/a

(1) Information prior to fiscal year 2015 is not available.

n/a - Academy did not contributed to STRS.

See accompanying notes to the required supplementary information.

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

	2019	2018	2017
School Employees Retirement System (SERS)			
Academy's Proportion of the Net OPEB Liability	0.00077350%	0.00085700%	0.00070636%
Academy's Proportionate Share of the Net OPEB Liability	$ 21,459	$ 23,000	$ 20,134
Academy's Covered Payroll	$ 27,704	$ 30,165	$ 30,201
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	77.46%	76.25%	66.67%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

Promise Academy
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions - OPEB
Last Four Fiscal Years (1)

	2019	2018	2017	2016
School Employees Retirement System (SERS)				
Contractually Required Contribution (2)	$ 2,543	$ 353	$ 0	$ 0
Contributions in Relation to the Contractually Required Contribution	(2,543)	(353)	0	0
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Academy's Covered Payroll	$ 165,963	$ 27,704	$ 30,165	$ 30,201
OPEB Contributions as a Percentage of Covered Payroll (2)	1.53%	1.27%	0.00%	0.00%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 0	n/a	n/a	n/a
Contributions in Relation to the Contractually Required Contribution	0	n/a	n/a	n/a
Contribution Deficiency (Excess)	$ 0	n/a	n/a	n/a
Academy's Covered Payroll	$ 453,186	n/a	n/a	n/a
OPEB Contributions as a Percentage of Covered Payroll	0.00%	n/a	n/a	n/a

(1) Information prior to fiscal year 2016 is not available.
(2) Includes surcharge

n/a - Academy did not contributed to STRS.

See accompanying notes to the required supplementary information.

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

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

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

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

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare
Fiscal year 2018 7.50 percent initially, decreasing to 4.00 percent
Fiscal year 2019 7.25 percent initially, decreasing to 4.75 percent
Medicare
Fiscal year 2018 5.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019 5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

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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*

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Promise Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 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 March 20, 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

March 20, 2020

OHIO AUDITOR OF STATE
KEITH FABER

PROMISE ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 2, 2020

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