Rea & associates a brighter way

Cleveland Arts and Social Sciences Academy

Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

Board of Directors
Cleveland Arts and Social Science Academy
10701 Shaker Blvd.
Cleveland, Ohio 44115

We have reviewed the *Independent Auditor's Report* of the Cleveland Arts and Social Science Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Ohio Auditor of State

Keith Faber

January 16, 2019

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CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY, OHIO

TABLE OF CONTENTS

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December 28, 2018

To the Board of Directors
Cleveland Arts and Social Sciences Academy
Cuyahoga County, Ohio
10701 Shaker Blvd
Cleveland, Ohio 44115

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Emphasis of a Matter

As described in Note 15 to the financial statements, the Academy restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions." Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 16 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of $3,346,732 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability, net OPEB liability and related accruals totaling $2,462,838. Note 16 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, *Schedule of the Academy's Proportionate Share of the Net Pension Liability, Schedule of the Academy's Contributions-Pension, Schedule of the Academy's Proportionate Share of the Net OPEB Liability,* and the *Schedule of the Academy's Contributions - OPEB* on pages 5–11, 46-47, 48-49, 50-51, and 52-53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's 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.

Rea & Associates, Inc.

Cambridge, Ohio

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

The discussion and analysis of the Cleveland Arts and Social Sciences Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2018. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

The Academy finished its thirteenth year of operations during fiscal year 2018 serving Kindergarten through eighth grade. Enrollment varied during the year, but the Academy ended the year with 260 students.

Key highlights for fiscal year 2018 are as follows:

- Net position increased $1,130,625.
- Operating revenues for fiscal year 2018 were $2,067,671 as compared to $2,619,332 for fiscal year 2017.
- Operating expenses for fiscal year 2018 were $1,799,041 as compared to $3,217,772 for fiscal year 2017.
- During fiscal year 2018 the Academy adopted GASB Statement No. 75, which restated beginning net position.
- A decrease in the Net Pension/OPEB liabilities decreased purchased services compared to 2017. See further information in Notes 9 and 10.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts: the required supplemental information, the basic financial statements, and the notes to the basic financial statements. These statements are organized so the reader can understand the financial position of the academy. Enterprise accounting uses a flow of economic resource 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 net position represents the net position of the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g. expenses) in net position. The statement of cash flows reflects how the academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Table 1 provides a summary of Academy's net position for 2018 compared to 2017:

Table 1
Statement of Net Position

	2018	Restated 2017
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 135,402	$ 264,642
Accounts Receivable	6,293	2,183
Intergovernmental Receivable	13,411	99,689
Prepaid Expense	94,816	78,252
Total Current Assets	249,922	444,766
Noncurrent assets:		
Capital Assets, net of Accumulated Depreciation	43,697	60,480
Total Noncurrent Assets	43,697	60,480
Total Assets	293,619	505,246
Deferred Outflows of Resources	916,953	651,265
Liabilities:		
Current Liabilities		
Accounts Payable, Trade	38,856	34,668
Accounts Payale, Related Party	132,835	146,630
Accrued Expenses	12,641	4,792
Total Current Liabilities	184,332	186,090
Noncurrent Liabilities:		
Net Pension Liability	2,452,000	3,276,991
Net OPEB Liability	521,612	665,988
Noncurrent Portion of Long-term Debt	993,181	1,243,181
Total Noncurrent Liabilities	3,966,793	5,186,160
Total Liabilities	4,151,125	5,372,250
Deferred Inflows of Resources	406,179	261,618
Net Position		
Invested in Capital Assets	43,697	60,480
Unrestricted Net Position	(3,390,429)	(4,537,837)
Total Net Position	$ (3,346,732)	$ (4,477,357)

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Total net position increased $1,130,625 in fiscal year 2018. The Academy enrollment in fiscal year 2018 decreased to 260 students compared to 327 students in fiscal year 2017. This decrease has caused significant changes to operating revenues and expenses (including impact of net pension/OPEB liabilities in financial highlights section). Debt forgiveness increased based on the agreement with the management company.

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

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

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

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.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

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

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

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

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($3,815,917) to ($4,477,357).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the Academy's net position totaled ($3,346,732).

Statement of Revenues, Expenses and Changes in Net Position **-** Table 2 shows the changes in Net Position for fiscal year 2018, as well as a listing of revenues and expenses. 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. Overall, the decrease in Operating Revenues was a result of less students being enrolled over the prior year. Decreased enrollment was also a driving force behind the decrease in expenses.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Table 2
Statement of Revenues, Expenses and Changes in Net Position

	2018	2017
Operating Revenues:		
State Aid	$ 2,067,531	$ 2,619,332
Miscellaneous	140	0
Total Operating Revenues	2,067,671	2,619,332
Operating Expenses:		
Purchased Services	1,704,712	3,114,505
Depreciation	16,784	16,824
Supplies	37,902	79,375
Other Operating Expense	39,643	7,068
Total Operating Expenses	1,799,041	3,217,772
Operating Income (Loss)	268,630	(598,440)
Nonoperating Revenues and (Expenses):		
Federal and State Restricted Grants	585,845	694,122
Other Grants	39,000	0
Debt Forgiveness	250,000	0
Interest Expense	(12,850)	(31,080)
Net Nonoperating Revenues and (Expenses)	861,995	663,042
Change in Net Position	$ 1,130,625	$ 64,602

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $4,548 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $96,820.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 1,799,041
Negative OPEB expense under GASB 75	96,820
2018 contractually required contribution	4,934
Adjusted 2018 program expenses	1,900,795
Total 2017 program expenses under GASB 45	3,217,772
Decrease in program expenses not related to OPEB	$ 1,316,977

CAPITAL ASSETS

At the end of fiscal year 2018, the Academy had $43,697 invested in capital assets (net of accumulated depreciation) for computers and software, furniture and equipment, and leasehold improvements. The following table shows fiscal year 2018 compared to 2017:

Capital Assets at June 30 (Net of Depreciation)

	2018	2017	Change
Computers & Software	$ 43,697	$ 60,041	$ (16,344)
Leasehold Improvements	-	440	(440)
Total Capital Assets, Net	$ 43,697	$ 60,481	$ (16,784)

For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

DEBT

In July 2015, Accel Schools, a related party, retired the promissory note to Mosaica and issued a new $1,243,181 promissory note to the Academy. Interest only payments were made for the year ended June 30, 2018. Also during 2018, $250,000 of the note was forgiven by the management company bringing the outstanding balance at year end to $993,181. For further information regarding the Academy's debt, refer to Note 6 to the basic financial statements.

OPERATIONS

Cleveland Arts and Social Sciences Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, investors, 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 any question concerning this report, please contact the Academy's Fiscal Officer, C. David Massa, CPA of Massa Financial Solutions, LLC, 10701 Shaker Blvd., Cleveland, Ohio 44115.

CLEVELAND ARTS & SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO
Statement of Net Position
June 30, 2018

Current Assets:	
Cash and Cash Equivalents	$ 135,402
Accounts Receivable	6,293
Intergovernmental Receivable	13,411
Prepaid Expense	94,816
Total Current Assets	249,922
Noncurrent Assets:	
Capital Assets, net of Accumulated Depreciation	43,697
	43,697
Total Assets	293,619
Deferred Outflows of Resources:	
Pension	866,527
OPEB	50,426
Total Deferred Outflows of Resources	916,953
Liabilities:	
Current Liabilities:	
Accounts Payable, Trade	38,856
Accounts Payable, Related Party	132,835
Accrued Expenses	12,641
Total Current Liabilities	184,332
Noncurrent Liabilities:	
Net Pension Liability	2,452,000
Net OPEB Liability	521,612
Noncurrent Portion of Long-term Debt	993,181
Total Noncurrent Liabilities	3,966,793
Total Liabilities	4,151,125
Deferred Inflows of Resources:	
Pension	317,679
OPEB	88,500
Total Deferred Inflows of Resources	406,179
Net Position:	
Invested in Capital Assets	43,697
Unrestricted Net Position	(3,390,429)
Total Net Position	$ (3,346,732)

See Accompanying Notes to the Basic Financial Statements

CLEVELAND ARTS & SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2018

Operating Revenues:	
State Aid	$ 2,067,531
Miscellaneous	140
Total Operating Revenues	2,067,671
Operating Expenses:	
Purchased Services	1,704,712
Depreciation	16,784
Supplies	37,902
Other Operating Expenses	39,643
Total Operating Expenses	1,799,041
Operating Income	268,630
Non-Operating Revenues and (Expenses):	
Federal and State Restricted Grants	585,845
Other Grants	39,000
Debt Forgiveness	250,000
Interest Expense	(12,850)
Net Non-operating Revenues and (Expenses)	861,995
Change in Net Position	1,130,625
Net Position Beginning of Year, Restated	(4,477,357)
Net Position End of Year	$ (3,346,732)

See Accompanying Notes to the Basic Financial Statements

CLEVELAND ARTS & SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
State Aid Receipts	$ 2,082,355
Other Operating Receipts	140
Cash Payments to Suppliers for Goods and Services	(2,910,007)
Net Cash Used For Operating Activities	(827,512)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Note Payable Interest Payments	(12,850)
Other Grant Receipts	39,000
Federal and State Grant Receipts	672,122
Net Cash Provided By Noncapital Financing Activities	698,272
Net Decrease in Cash and Cash Equivalents	(129,240)
Cash and Cash Equivalents - Beginning of the Year	264,642
Cash and Cash Equivalents - Ending of the Year	$ 135,402

See Accompanying Notes to the Basic Financial Statements

(Continued)

CLEVELAND ARTS & SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
(Continued)

Reconciliation of Operating Income to Net Cash Used For Operating Activities		
Operating Income	$	268,630
Adjustments to Reconcile Operating Income to Net Cash Used For Operating Activities:		
Depreciation		16,784
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:		
(Increase)/Decrease in Receivables		(4,110)
(Increase)/ Decrease in Deferred Outflows		(265,688)
Increase/ (Decrease) in Deferred Inflows		144,561
Increase/ (Decrease) in Net Pension/OPEB Liability		(969,367)
Increase/ (Decrease) in Accounts Payable, Trade		4,188
Increase/ (Decrease) in Accounts Payable, Related Party		(13,795)
Increase/(Decrease) in Accrues Expenses		7,849
(Increase)/Decrease in Prepaid Expenses		(16,564)
Net Cash Used For Operating Activities	$	(827,512)

Non Cash Transaction: During fiscal year 2018 Accel Schools forgave $250,000 worth of long term notes due to renewal of the management agreement and consistent interest payments.

See Accompanying Notes to the Basic Financial Statements

NOTE 1 – DESCRIPTION OF THE ACADEMY

The Cleveland Arts and Social Sciences Academy (the "Academy") is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in grades K-8. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation pursuant to Ohio Revised Code Chapter 3314 under a contract with Ohio Council of Community Schools (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending June 30, 2009. The contract was subsequently renewed through June 30, 2016 and again through June 30, 2021. 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.

Ohio Revised Code Section 3314.02(E) states in part that the Academy operate under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operates or manages an academy for the Governing Board. The Board is responsible for carry out the provisions of the contract that include, but are not limited to, state-mandated provision regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The Academy contracts with Accel Schools, LLC., for management services including management of personnel and human resources, the program of instruction, marketing data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

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 units. 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'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 for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus - The financial statements are accounted for using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and all 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 net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

Basis of Accounting - 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. 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 nonexchange transactions, in which 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 specified 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 Cash Equivalents - Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2018.

Prepaid Items - The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2018, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Capital Assets - The Academy's capital assets during fiscal year 2018 consisted of computers and software, furniture and equipment, and leasehold improvements. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Computer & Software	5 years
Furniture & Equipment	5-20 years
Leasehold Improvements	Remaining Life of the Lease

Net Position - Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by 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. There is no enabling legislation at June 30, 2018. Net invested in capital assets of $43,697 represents capital assets, less accumulated depreciation.

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.

Deferred Inflows and Deferred Outflows 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/expenditure) 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 Note 9 and 10.

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. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position. (See Note 9 and 10)

Pensions/Other Postemployment Benefits (OPEB) **-** For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Academy classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The Academy maintains its cash balances at Huntington Bank in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2018, the book amount of the Academy's deposits was $135,402 and the bank balance was $169,812.

NOTE 4 - RECEIVABLES

At June 30, 2018, the Academy had accounts receivables in the amount of $6,293. These receivables represent monies for shared employee expense, which was not received as of June 30, 2018. The Academy also had intergovernmental receivables of $13,411. These receivables represent monies due from Title I and Title IIA, which was not received as of June 30, 2018. All receivables are expected to be collected within one year.

NOTE 5 – CAPITAL ASSETS

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

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
Capital Assets:				
Computers & Software	$ 178,741	$ -	$ -	$ 178,741
Furniture & Equipment	205,880	-	-	205,880
Leasehold Improvements	2,400	-	-	2,400
Total Capital Assets	387,021	-	-	387,021
Less Accumulated Depreciation:				
Computers & Software	(118,700)	(16,344)	-	(135,044)
Furniture & Equipment	(205,880)	-	-	(205,880)
Leasehold Improvements	(1,960)	(440)	-	(2,400)
Total Accumulated Depreciation	(326,540)	(16,784)	-	(343,324)
Total Capital Assets, Net	$ 60,481	$ (16,784)	$ -	$ 43,697

NOTE 6 – LONG-TERM OBLIGATIONS

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

	Restated Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018	Due within One Year
Pension/OPEB Liability:					
Net Pension Liability	$ 3,276,991	$ -	$ (824,991)	$ 2,452,000	$ -
Net OPEB Liability	665,988	-	(144,376)	521,612	-
Total Pension/OPEB Liability	3,942,979	-	(969,367)	2,973,612	-
Accel Schools - Notes Payable	1,243,181	-	(250,000)	993,181	-
Total Long-Term Obligations	$ 5,186,160	$ -	$ (1,219,367)	$ 3,966,793	$ -

In consideration of the agreement executed in 2015, the management company agreed to forgive or restructure the debt formerly owed to Mosaica and assumed by Accel Schools as part of its purchase of Mosaica's assets. In fiscal year 2016, $500,000 in debt was forgiven, including the remaining balance on a $300,000 promissory note to Mosaica Inc. The remainder, $1,243,181 of certain related party accounts payable and long-term obligations is restructured as a note payable to Accel Schools, Inc. with a term of 20 years and an interest rate of 2.5%. No payments shall be made on principal during the term of the refinanced note unless the Academy is operating at a surplus. In fiscal 2018, $250,000 of the note was forgiven by Accel and interest on the note totaled $12,850. Should the Academy renew the management agreement at the end of fiscal year 2023 for another five years, an additional $250,000 of debt shall be forgiven. Future obligations under the note are as follows:

Promissory Note		
Year Ending June 30:	Principal	Interest
2019	$ -	$ 31,080
2020	-	31,080
2021	-	31,080
2022	-	31,080
2023	-	31,080
2024-2028	-	155,400
2029-2033	-	155,400
2034-2038	-	155,400
2039-2043	-	155,400
2044-2046	993,181	95,830
Total	$ 993,181	$ 872,830

NOTE 7 – 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 2018, the Academy contracted with Pashley Insurance Agency to provide insurance coverage with the Hanover Insurance Companies.

Settled claims have not exceeded this commercial coverage in the prior three years and there have been no significant reductions in insurance coverage from the prior year.

General Liability:	
Each Occurrence	$ 1,000,000
Aggregate Limit	$ 2,000,000
Products-Completed Operations Aggregate Limit	$ 2,000,000
Medical Expense Limit – Any One Person/Occurrence	$ 15,000
Damage to Rented Premises-Each Occurrence	$ 500,000
Personal and Advertising Injury	$ 1,000,000
Automotive Liability:	$ 50,000
Combined Single Limit	$ 1,000,000
Property:	
Building	$ 3,000,000
Business Personal Property/Modulars	$ 1,200,000
Excess/Umbrella Liability:	
Each Occurrence	$ 5,000,000
Aggregate Limit	$ 5,000,000

NOTE 8 – PURCHASED SERVICES

For the fiscal year ended June 30, 2018, purchased service expenses were as follows:

Personnel Services	$ 198,164
Professional Services	692,371
Property Services	502,380
Utilities	126,679
Travel and Meetings	803
Communications	24,446
Contractual Trade	159,869
	$ 1,704,712

Amounts included above include negative pension/OPEB expense discussed further in notes 9 and 10.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description –Academy non-teaching employees participate in SERS, a cost-sharing, multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14.00 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018

The Academy's contractually required contribution to SERS was $30,605 for fiscal year 2018.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

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. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12.0 of the 14.0 percent member rates goes to the DC Plan and the remaining 2.0 percent goes 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 services. 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 in the GASB 68 schedules of employer allocation and pension amounts by employer.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contributions to STRS was $102,900 for fiscal year 2018.

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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.0082544%	0.00798507%	
Proportion of the Net Pension Liability Current Measurement Date	0.0070171%	0.00855705%	
Change in Proportionate Share	-0.0012373%	0.0005720%	
Proportionate Share of the Net Pension Liability	$419,255	$2,032,745	$ 2,452,000
Pension Expense	($33,330)	($821,905)	($855,235)

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.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	18,044	78,495	96,539
Changes of assumptions	21,679	444,584	466,263
Changes in proportion and differences between contributions and proportionate share of contributions	35,958	134,262	170,220
Academy contributions subsequent to the measurement date	30,605	102,900	133,505
Total Deferred Outflows of Resources	106,286	760,241	866,527
Deferred Inflows of Resources			
Differences between expected and actual experience	0	16,383	16,383
Net difference between projected and actual earnings on pension plan investments	1,991	67,083	69,074
Changes in proportion and differences between contributions and proportionate share of contributions	77,714	154,508	232,222
Total Deferred Inflows of Resources	79,705	237,974	317,679

$133,505 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	($1,423)	$55,507	$54,084
2020	16,781	146,764	163,545
2021	(9,609)	148,018	138,409
2022	(9,773)	69,078	59,305
Total	($4,024)	$419,367	$415,343

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates the long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
International Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Stratagies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning 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.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

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 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$581,819	$419,255	$283,077

Actuarial Assumptions – STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

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, 2017, valuation are based on the results of an actuarial experience study, for the period July 1, 2011 through June 30, 2016.

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

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

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 %	7.61 %

*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.

***** 10-Year annualized 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 Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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.

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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	$2,913,872	$2,032,745	$1,290,529

Assumption Changes since the Prior Measurement Date
The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes Since the Prior Measurement Date
Effective July 1, 2017, the COLA was reduced to zero.

NOTE 10 – POSTEMPLOYMENT BENEFITS

Net OPEB Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Net OPEB Liability - continued

does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Plan Description - School Employees Retirement System (SERS) - continued

provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was $3,797.

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 $4,934 for fiscal year 2018.

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, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

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

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.00838289%	0.00798507%	
Proportion of the Net OPEB Liability Current Measurement Date	0.00699580%	0.00855705%	
Change in Proportionate Share	-0.00138709%	0.00057198%	
Proportionate Share of the Net OPEB Liability	$187,748	$333,864	$521,612
OPEB Expense	$688	($97,508)	($96,820)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 0	$ 19,273	$ 19,273
Changes in proportion and differences between contributions and proportionate share of contributions	0	26,219	26,219
Academy contributions subsequent to the measurement date	4,934	0	4,934
Total Deferred Outflows of Resources	4,934	45,492	50,426
Deferred Inflows of Resources			
Changes of assumptions	$ 17,817	$ 26,894	$ 44,711
Net difference between projected and actual earnings on OPEB plan investments	496	14,270	14,766
Changes in proportion and differences between contributions and proportionate share of contributions	29,023	0	29,023
Total Deferred Inflows of Resources	47,336	41,164	88,500

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

$4,934 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	($17,094)	($468)	($17,562)
2020	(17,094)	(468)	(17,562)
2021	(13,024)	(468)	(13,492)
2022	(124)	(466)	(590)
2023	0	3,100	3,100
Thereafter	0	3,098	3,098
Total	($47,336)	$4,328	($43,008)

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.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 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 most recent experience study was completed for the five year period ended June 30, 2015.

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

NOTE 10 – POSTEMPLOYMENT BENEFITS (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 Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	$226,731	$187,748	$156,865

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Academy's proportionate share of the net OPEB liability	$152,344	$187,748	$234,608

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. 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. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent 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. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 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 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 annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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 actual rate of return, without net value added by management.

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent 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 not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of 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 blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability 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 (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's proportionate share of the net OPEB liability	$448,208	$333,864	$243,496

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	$231,955	$333,864	$467,990

NOTE 11 - CONTINGENCIES

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2018.

Litigation **-** There are currently no matters in litigation with the Academy as defendant.

Full-Time Equivalency - Academy 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 did not perform such a review on the Academy for fiscal year 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.

In addition, the Academy's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy.

NOTE 12 – BUILDING LEASES

In October 2008, the Academy entered into a lease agreement with Springfield Investment Properties, LLC, a wholly owned subsidiary of Mosaica Education, Inc., for use of a school facility. This new facility was put into service in August 2010, the commencement date of the lease. The lease term is the commencement date through June 2020. The annual base rent for the new facility was $415,000 subject to adjustment for investments made by the landlord for site improvements.

On January 9, 2015, the Academy signed a second amendment to the lease for the building that houses the Academy, in which Accel Schools was substituted as the landlord for Mosaica Education, Inc. On July 31, 2015 a third amendment to the lease was signed between the Academy and Accel Schools, LLC, in which the Annual base rent under the third amended lease is $471,400. Beginning on January 9, 2016 and continuing on each subsequent anniversary of the commencement date (adjustment date) the rent will be adjusted by the CPI for the month that is 16 months before the adjustment date.

The Academy paid $471,028 for rent during the fiscal year 2018. Under the lease agreement, the Academy is responsible for payment of all utilities and repairs and maintenance. The future minimum payments required under the facility lease are as follows:

Year Ending June 30:	Amount
2019	$ 515,112
2020	350,565
Total future minimum lease payments	$ 865,677

NOTE 13 - SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools Council (the Sponsor) for a period of three academic years commencing April 26, 2005 and ending on June 30, 2009. Contract extensions were executed extending the contract period through June 30, 2016 and through June 30, 2021. As part of this contract, the Sponsor is entitled to a maximum of three percent of all revenues. Total Sponsor Fees incurred during fiscal year 2018 was $59,825.

NOTE 14 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES

The Academy entered into an agreement with Accel Schools, a management company, to provide legal, financial, and other management support services for fiscal year 2018. The agreement was for a period of five years beginning July 1, 2015. Management fees are calculated as 12.5% of the Academy's State Revenue, plus $20,000 for managing Federal Funds. The total amount due from the Academy for the fiscal year ending June 30, 2018 was $271,175 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

Also per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred by Accel Schools. These expenses include rent, salaries of Accel employees working in at the Academy and other costs related to providing education and administrative services. The total amount billed to the Academy inclusive of management fees during fiscal year 2018 was $1,344,598.

The following is a summary of the management company expenses during fiscal year 2018:

Cleveland Arts & Social Sciences Academy	Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct Expenses:					
Salaries & Wages (100 Object Codes)	$ 736,428	$ 109,091	$ 191,336	$ -	$1,036,855
Employees' Benefits (200 Object Codes)	47,757	1,359	22,300	-	71,416
Professional & Technical Services (410 Object Codes)	-	-	281,858	-	281,858
Supplies (500 Object Codes)	1,732	-	2,959	-	4,691
Other Direct Costs (All Other Object Codes)	-	-	6,507	-	6,507
Indirect Expenses:					
Overhead	-	-	247,657	-	247,657
Total Expenses	**$ 785,917**	**$ 110,450**	**$ 752,617**	**$ -**	**$1,648,984**

Accel Schools charges expenses benefiting more than one school (i.e. overhead) are pro-rated based on full time equivalent (FTE) head count as of June 30, 2018 by each school it manages.

NOTE 15 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

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

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

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

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

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

Net Position June 30, 2017	$ (3,815,917)
Adjustments:	
Net OPEB liability	(665,988)
Deferred Outflow - Payments Subsequent to Measurement Date	4,548
Restated Net Position June 30, 2017	$ (4,477,357)

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

NOTE 16 - MANAGEMENT PLAN

For fiscal year 2018, the Academy had a net position deficit of $(3,346,732), including impact of net pension/OPEB liabilities and related accruals. The Academy's net deficit in fiscal year 2018 improved from the $(4,477,357) restated net deficit in fiscal 2017. Enrollment decreased in fiscal year 2018 to 260, down from 327 in fiscal year 2017. The Academy's ability to maintain a stable administrative and instructional team along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the Academy to recover from its prior deficits.

Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00701710%	0.00825440%	0.0070147%	0.008262%	0.008262%
Academy's Proportionate Share of the Net Pension Liability	$ 419,255	$ 604,146	$ 400,267	$ 418,135	$ 491,315
Academy's Covered Payroll	$ 213,750	$ 297,943	$ 68,323	$ 226,905	$ 207,659
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	196.14%	202.77%	585.84%	184.28%	236.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information.

Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00855705%	0.00798507%	0.00825001%	0.00919671%	0.00919671%
Academy's Proportionate Share of the Net Pension Liability	$ 2,032,745	$ 2,672,845	$ 2,280,061	$ 2,236,958	$ 2,664,650
Academy's Covered Payroll	$ 940,743	$ 826,414	$ 860,750	$ 1,028,554	$ 979,946
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	323.43%	264.89%	217.49%	271.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS-PENSION
SCHOOL EMPLOYEE'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 30,605	$ 29,925	$ 41,712	$ 9,005	$ 31,449	$ 28,740	$ 43,821	$ 33,761	$ 14,564	$ 9,748
Contributions in Relation to the Contractually Required Contribution	$ (30,605)	$ (29,925)	$ (41,712)	$ (9,005)	$ (31,449)	$ (28,740)	$ (43,821)	$ (33,761)	$ (14,564)	$ (9,748)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 235,096	$ 213,750	$ 297,943	$ 68,323	$ 226,905	$ 207,659	$ 325,807	$ 268,584	$ 107,563	$ 99,065
Contributions as a Percentage of Covered Payroll	13.02%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

See accompanying notes to the required supplementary information.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS-PENSION
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 102,900	$ 131,704	$ 115,698	$ 120,505	$ 133,712	$ 127,393	$ 110,384	$ 115,185	$ 78,124	$ 64,133
Contributions in Relation to the Contractually Required Contribution	$ (102,900)	$ (131,704)	$ (115,698)	$ (120,505)	$ (133,712)	$ (127,393)	$ (110,384)	$ (115,185)	$ (78,124)	$ (64,133)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 735,000	$ 940,743	$ 826,414	$ 860,750	$ 1,028,554	$ 979,946	$ 849,108	$ 886,038	$ 600,954	$ 493,331
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.0069958%	0.0083829%
Academy's Proportionate Share of the Net OPEB Liability	$ 187,748	$ 238,944
Academy's Covered Payroll	$ 213,750	$ 297,943
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	87.84%	80.20%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	62.98%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE OPEB LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS (1)

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.00855705%	0.00798507%
Academy's Proportionate Share of the Net OPEB Liability	$ 333,864	$ 427,044
Academy's Covered Payroll	$ 940,743	$ 826,414
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	51.67%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	62.98%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the Academy's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS-OPEB
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 4,934	$ 4,548	$ 4,319	$ 560	$ 1,825	$ 1,623	$ 1,898	$ 1,462	$ 1,763	$ 4,448
Contributions in Relation to the Contractually Required Contribution	$ (4,934)	$ (4,548)	$ (4,319)	$ (560)	$ (1,825)	$ (1,623)	$ (1,898)	$ (1,462)	$ (1,763)	$ (4,448)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 235,096	$ 213,750	$ 297,943	$ 68,323	$ 226,905	$ 207,659	$ 325,807	$ 268,584	$ 107,563	$ 99,065
Contributions as a Percentage of Covered Payroll	2.10%	2.13%	1.45%	0.82%	0.80%	0.78%	0.58%	0.54%	1.64%	4.49%

See accompanying notes to the required supplementary information.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS-OPEB
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$ -	$ -	$ -	$ -	$ 10,286	$ 9,799	$ 8,491	$ 8,860	$ 6,010	$ 4,933
Contributions in Relation to the Contractually Required Contribution	$ -	$ -	$ -	$ -	$ (10,286)	$ (9,799)	$ (8,491)	$ (8,860)	$ (6,010)	$ (4,933)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Academy's Covered Payroll	$ 735,000	$ 940,743	$ 826,414	$ 860,750	$ 1,028,554	$ 979,946	$ 849,108	$ 886,038	$ 600,954	$ 493,331
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

Net Pension Liability

Changes of benefit terms - SERS:

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2018.

The following changes were made to the benefit terms in 2018 as identified: The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% 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.

Changes in assumptions - SERS:

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016 and 2018. For fiscal year 2018, 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 and (g) mortality among disable member 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 (h) change in discount rate from 7.75% to 7.5%.

Changes in benefit terms - STRS:

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. Effective for fiscal year 2018, the cost of living adjustment (COLA) was reduced to zero.

Changes in assumptions - STRS:

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net OPEB Liability

Changes in Assumptions – SERS

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

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. 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. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also, for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent 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.

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December 28, 2018

To the Board of Directors
Cleveland Arts and Social Sciences Academy
Cuyahoga County, Ohio
10701 Shaker Blvd
Cleveland, Ohio 44115

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cleveland Arts and Social Sciences Academy, Cuyahoga County, Ohio (the "Academy") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 28, 2018, in which we noted the Academy restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions", and the Academy has suffered recurring losses from operations and has a net position deficit of $3,346,732, including the net effect of net pension liability, net OPEB liability and related accruals totaling $2,462,838, that raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Cambridge, Ohio

OHIO AUDITOR OF STATE
KEITH FABER

CLEVELAND ARTS AND SOCIAL SCIENCES 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
JANUARY 29, 2019