CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost · Auditor of State

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
3950 Prospect Avenue
Cleveland, Ohio 44115

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, Ohio, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities, and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2010

Our management's discussion and analysis of the Cleveland Academy of Scholarship, Technology, and Leadership Enterprise's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key Financial Highlights for the School for the 2015 - 2016 school year are as follows:

- Total assets increased $40,288 from the prior year.
- Total deferred outflows increased $145,718 from the prior year.
- Total liabilities increased $142,121 from the prior year.
- Total deferred inflows decreased $53,272 from the prior year.
- Total net position increased $97,157 from the prior year.
- Total revenues decreased $91,780 from the prior year.
- Total operating expenses decreased $707,262 from the prior year.

Using This Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and change in net position, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity. Therefore, the entity-wide and the fund presentation information is the same.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2016. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of recourses, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position for fiscal years 2016 and 2015.

(Table 1)
Net Position

	2016	2015	Change
Assets			
Current Assets	$ 63,012	$ 22,484	$ 40,528
Capital Assets, Net	958	1,198	(240)
Total Assets	63,970	23,682	40,288

Deferred Outflows of Resources			
Pension	265,230	119,512	145,718
Total Deferred Outflows of Resources	265,230	119,512	145,718
Liabilities			
Current Liabilities	539,813	923,651	(383,838)
Long-Term Liabilities	2,466,413	1,940,454	525,959
Total Liabilities	3,006,226	2,864,105	142,121
Deferred Inflows of Resources			
Pension	292,727	345,999	(53,272)
Total Deferred Inflows of Resources	292,727	345,999	(53,272)
Net Position			
Investment in Capital Assets	958	1,198	(240)
Unrestricted	(2,970,711)	(3,068,108)	97,397
Total Net Position	$(2,969,753)	$(3,066,910)	$ 97,157

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

Statement of Revenues, Expenses, and Change in Net Position

Table 2 shows the change in Net Position for fiscal years 2016 and 2015, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

(Table 2)

Change in Net Position

	2016	2015	Change
Operating Revenues			
State Foundation	$ 1,433,232	$1,465,421	$ (32,189)
Casino	10,102	4,651	5,451
Non-Operating Revenues			
Federal Grants	180,631	228,274	(47,643)
Miscellaneous	9,807	27,206	(17,399)
Total Revenues	1,633,772	1,725,552	(91,780)
Operating Expenses			
Salaries	777,950	845,561	(67,611)
Fringe Benefits	185,902	240,932	(55,030)
Purchased Services	425,476	943,824	(518,348)
Material and Supplies	74,789	106,318	(31,529)
Depreciation	240	29,130	(28,890)

Miscellaneous	72,258	78,112	(5,854)
Total Expenses	1,536,615	2,243,877	(707,262)
Change in Net Position	97,157	(518,325)	615,482
Net Position, Beginning of Year	(3,066,910)	(2,548,585)	(518,325)
Net Position, End of Year	$(2,969,753)	$(3,066,910)	$ 97,157

Total revenues decreased by $91,780 compared to the previous year. The decrease was the result of decreases in foundation, federal, state and miscellaneous revenues. Total expenses decreased by $707,262 compared to the previous year. The decreases in expenses were due to a significant decrease in purchased services.

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, (with the exception of section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

Capital Assets

At fiscal year ended June 30, 2016, the School's net capital asset balance was $958. For more information on capital assets, see Note 6 of the Basic Financial Statements.

Working Capital Advances - Charter School Capital

During the fiscal year, the School received working capital monies from Charter School Capital through a receivable purchase agreement. As the School receives monthly State funding, these advances are repaid, however, the School may elect to receive additional advances from Charter School Capital by entering into additional agreements.

Current Financial Issues

The School is a community School and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In fiscal year 2016, the State raised the base per pupil funding to $5,900, which is up from the $5,800 in the previous year.

The full-time equivalent enrollment of the School for the year ended June 30, 2016 was 171 students.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of the students served.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors, and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact: Treasurer, C.A.S.T.L.E. High School, Inc. 3950 Prospect Avenue, Cleveland, Ohio 44115.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016

Assets	
Current Assets	
Cash	$ 8,815
Security Deposits	19,500
Intergovernmental Receivable	34,697
Total Current Assets	63,012
Noncurrent Assets	
Capital Assets, Net	958
Total Assets	63,970
Deferred Outflows of Resources	
Pension	265,230
Total Deferred Outflows of Resources	265,230
Liabilities	
Current Liabilities	
Accounts Payable	194,890
Accrued Wages and Benefits	55,176
Intergovernmental Payable	36,372
Judgment Payable	6,975
Advances Payable	246,400
Total Current Liabilities	539,813
Long-Term Liabilities	
Due in More Than One Year:	
Judgment Payable	373,018
Net Pension Liability (See Note 7)	2,093,395
Total Long-Term Liabilities	2,466,413
Total Liabilities	3,006,226
Deferred Inflows of Resources	
Pension	292,727
Total Deferred Inflows of Resources	292,727
Net Position	
Investment in Capital Assets	958
Unrestricted	(2,970,711)
Total Net Position	$ (2,969,753)

See the accompanying notes to the financial statements.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY
AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating Revenues	
State Foundation	$ 1,433,232
Casino	10,102
Total Operating Revenues	1,443,334
Operating Expenses	
Salaries	777,950
Fringe Benefits	185,902
Purchased Services	425,476
Materials & Supplies	74,789
Miscellaneous	72,258
Depreciation	240
Total Operating Expenses	1,536,615
Operating Loss	(93,281)
Non-Operating Revenues	
Federal Grants	180,631
Miscellaneous	9,807
Total Non-Operating Revenues	190,438
Change in Net Position	97,157
Net Position (Deficit) at Beginning of Year	(3,066,910)
Net Position (Deficit) at End of Year	$ (2,969,753)

See the accompanying notes to the financial statements.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Increase (Decrease) In Cash	
Cash Flows from Operating Activities	
Cash Received from the State of Ohio	$ 1,434,066
Cash Payments to Employees for Services and Benefits	(1,017,048)
Cash Payments to Suppliers for Goods and Services	(560,200)
Net Cash Used for Operating Activities	(143,182)
Cash Flows from Noncapital Financing Activities	
Cash Overdraft	(35,684)
Cash Proceeds from Advances	403,804
Cash Payments for Advances	(408,804)
Cash Received from Federal and State Grants	182,874
Cash Received from Miscellaneous Revenues	9,807
Net Cash Provided by Noncapital Financing Activities	151,997
Net Increase in Cash	8,815
Cash at Beginning of Year	-
Cash at End of Year	$ 8,815
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(93,281)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	240
Changes in Assets, Deferred Outflows, Liabilities and Deferred Infows:	
Increase in Security Deposits	(6,500)
Increase in Intergovernmental Receivable Related to Foundation and STRS/SERS Refunds	(27,456)
Increase in Deferred Outflows	(145,718)
Decrease in Accounts Payable	(27,677)
Increase in Accrued Wages and Benefits	37
Increase in Intergovernmental Payable	11,004
Increase in Judgment Payable	46,500
Increase in Net Pension Liability	152,941
Decrease in Deferred Inflows	(53,272)
Total Adjustments	(49,901)
Net Cash Used for Operating Activities	$ (143,182)

See the accompanying notes to the financial statements.

1. DESCRIPTION OF THE ENTITY

The Cleveland Academy of Scholarship, Technology, and Leadership Enterprise, Inc., (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of grades 9 through 12. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career, and life. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was originally approved for operation under a contract with Educational Resource Consultants of Ohio, Inc. ("ERCO") (the Sponsor) in the fall of 2004 and ending June 30, 2009. Each year since, the School's contract has been renewed for a one year period. The most recent renewal commenced on July 1, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven- member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

GASB requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows are included on the statement of net position. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The financial statements are prepared using the accrual basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Process
Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the School must prepare a five-year funding plan and submit it to the Ohio Superintendent of Public Instruction. In addition, the Sponsor contract requires a detailed budget for each year of the contract.

D. 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 these estimates.

E. Capital Assets
Capital assets are capitalized at cost. Donated capital assets are recorded at their fair market values as of the date received. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold, or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from Net Position. Deprecation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives are as follows:

Asset	Useful Life
Computers and Software	3 Years
Furniture and Fixtures	5 Years
Equipment	5 Years
Textbooks	5 Years

The School has an asset capitalization threshold policy of $5,000. (See Note 6) Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompanying Statement of Net Position.

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School also participates in various federal and state programs through the Ohio Department of Education. Under the above programs, the School recorded $1,433,232 this fiscal year from the State Foundation Program and $180,631 from Federal grants.

G. Compensated Absences
Vacation is taken in a manner in which corresponds with the school calendar; therefore School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of eight days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements which consist of accounts payable, intergovernmental payable, accrued wages and benefits, judgment payable and advances payable of $912,831 at June 30, 2016.

I. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

J. Deferred Outflows / Deferred Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School, deferred inflows of resources are reported on the statement of net position include pension. Deferred inflows of resources related to pension is reported on statement of net position. (See Note 7)

K. Pensions

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

L. Exchange and Non-Exchange Transactions

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. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2016.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School’s fiscal year 2016 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. There is no effect on beginning net position.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School’s fiscal year 2016 financial statements; however, there was no effect on beginning net position.

4. CASH AND CASH EQUIVALENTS

At June 30, 2016, the carrying amount of the School’s deposits was $8,815, and the bank balance was $10,316. The School’s bank balance was covered by the Federal Deposit Insurance Corporation.

5. INTERGOVERNMENTAL RECEIVABLE

The School had receivables from various intergovernmental sources totaling $34,697 representing monies earned, but not received as of June 30, 2016.

6. CAPITAL ASSETS AND DEPRECIATION

For the period ending June 30, 2016, the School's capital assets consisted of the following:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Computer and Software	$ 141,139	$0	$0	$ 141,139
Furniture and Fixtures	6,015	-	-	6,015
Textbooks	25,905	-	-	25,905
Equipment	132,181	-	-	132,181
Total Capital Assets	305,240	0	0	305,240
Less Accumulated Depreciation:				
Computer and Software	(139,941)	(240)	0	(140,181)
Furniture and Fixtures	(6,015)	-	-	(6,015)
Textbooks	(25,905)	-	-	(25,905)
Equipment	(132,181)		-	(132,181)
Total Accumulated Depreciation	(304,042)	(240)	0	(304,282)
Total Capital Assets, Net	$ 1,198	$(240)	$0	$ 958

7. DEFINED BENEFIT PENSION 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 School'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 School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

effective when the changes are legally enforceable.

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

School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy
Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

The School's contractually required contribution to SERS was $31,755 for fiscal year 2016.

State Teachers Retirement System (STRS)

Plan Description
The School 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. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Funding Policy
Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $79,418 for fiscal year 2016.

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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School'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:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 1,640,805	$ 452,590	$ 2,093,395
Proportion of the Net Pension Liability	0.00593697%	0.00793170%	
Pension Expense	$ 62,581	$ 2,543	$ 65,124

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 74,251	$ 8,375	$ 82,626
Changes in proportion	71,431	0	71,431
School contributions subsequent to the measurement date	79,418	31,755	111,173
Total Deferred Outflows of Resources	$ 225,100	$ 40,130	$ 265,230
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 107,465	$ 35,802	$ 143,267
Changes in proportion	0	149,460	149,460
Total Deferred Inflows of Resources	$ 107,465	$ 185,262	$ 292,727

$111,173 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	$ (5,441)	$ (59,765)	$ (65,206)
2018	(5,441)	(59,765)	(65,206)
2019	(5,445)	(59,815)	(65,260)
2020	54,543	2,458	57,001
	$ 38,216	$ (176,887)	$ (138,671)

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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class.

The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

<u>Discount Rate</u>

The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

<u>Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate</u>

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$ 627,580	$ 452,590	$ 305,235

<u>Changes Between Measurement Date and Report Date</u>

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School's net pension liability is expected to be significant.

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$ 2,279,202	$ 1,640,805	$ 1,100,945

8. POST-EMPLOYMENT BENEFITS

Health Care Plan Description
The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy
State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was $23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School's surcharge obligation was $1,266.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $1,266, $3,224, and $2,497, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System

Plan Description
The School participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined

8. POST-EMPLOYMENT BENEFITS (CONTINUED)

benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy
Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $0, and $6,322 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

9. ADVANCES PAYABLE

During fiscal year 2016, the School received working capital advances from Charter School Capital (CSC) through a receivables purchase agreement in which three months of projected State funding were sold to CSC. As the School receives its monthly State funding, one month of advances are repaid, however, the School may elect to sell an additional month of receivables in exchange for another advance from CSC so that a maximum of three months of receivables are outstanding at any one time. Due to the fact that each month is sold separately, there is not a stated interest rate, but rather an associated "cost of funding".

At June 30, 2016, the total amount of advances outstanding was $246,400 and the cost of funding expense incurred during the year was $25,736. The activity for the year is reflected as follows:

Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
$ 251,400	$ 403,804	$(408,804)	$ 246,400

10. LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2016 were as follows:

	Principal Outstanding 6/30/2015	Additions	Deductions	Principal Outstanding 6/30/2016
Net Pension Liability:				
STRS	$1,368,112	$ 272,693	$ -	$1,640,805
SERS	572,342	-	(119,752)	452,590
Total Net Pension Liability	1,940,454	272,693	(119,752)	2,093,395
Judgment Payable	-	373,018	-	373,018
Total Long-Term Obligations	$1,940,454	$645,711	$(119,752)	$2,466,413

11. PURCHASED SERVICES

For the period of July 1, 2015 through June 30, 2016, the School made the following purchased services commitments.

Professional and Technical Services	$	204,352
Property Services		157,944
Travel and Meetings		1,019
Communications		35,110
Contractual Trade Services		23,316
Miscellaneous		3,735
Total	$	425,476

12. SPONSOR FEES

The School contracted with Educational Resource Consultants of Ohio, Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2016, sponsorship fees paid totaled $40,609.

13. OPERATING LEASES

In October 2014, the School entered into a lease agreement with the George Group for 19,000 square feet located at 3950 Prospect Avenue. A security deposit of $13,000 was paid in June 2014 and the rent amount is $13,000 per month for the first two years. Total rent expense included other facility related costs, utilities, taxes, late fees, related to the building being rented. For the fiscal year ended June 30, 2016, total rent expense was $194,326.

14. RISK MANAGEMENT

A. Property & Liability
The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2016, the School contracted with Westfield Insurance Company for general and commercial liability coverage. The limits of this coverage are $1,000,000 per occurrence and $2,000,000 in the aggregate with a $1,000 deductible.

There have been no significant reductions in insurance coverage from the last fiscal year. Settled claims have not exceeded insurance coverage for the past three fiscal years.

B. Workers' Compensation
The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Benefits
The School provides medical, dental and vision benefits through COSE, Superior Dental, and VSP respectively to all full-time employees. The School pays 70% of the monthly premiums for employees and dependents, except for vision coverage which is solely paid by the employee.

15. DEFICIT NET POSITION

The School's Net Position at June 30, 2016 was $(2,969,753). This was due to the fact that the School's current liabilities exceeded its available assets to meet those obligations. The Board remains committed to the success of the School both academically and financially and is focused on overcoming this deficit through increases in student enrollment that will lead to higher revenues, or reductions of current operating expenses.

16. CONTINGENCIES

Grants

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

Full-Time Equivalency

The School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the community schools must comply with the minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School.

17. LIGITATION

In 2015, the School was named a defendant in a civil suit filed in the Cuyahoga County Common Pleas Court, involving a lease agreement dispute. August 2016, a judgment was granted in favor of the plaintiff, Sunshine Limited Partnership against the School in the amount of $333,493. October 2016, the Court granted the School's motion to stay execution pending an appeal.

In 2015, the School was named a defendant in a civil suit filed in the Cuyahoga County Common Pleas Court, involving a copier lease agreement dispute. September 2016, the plaintiff, US Bank National Association dba US Bank Equipment Finance settled with the School for the total principal amount of $46,500 to be payable in 60 equal payments of $775 beginning October 2016.

18. RELATED PARTY LOANS

The Board approved to receive loans from Kamal Chatman. Mr. Chatman is the School's CEO. Mr. Kamal Chatman loaned the School $32,666 during the school year. There is no interest associated with this loan. As of June 30, 2016, the School paid its loan obligation in full.

19. SUBSEQUENT EVENTS

On August 3, 2016, the School entered into a management agreement with EEG Castle, LLC ("EEG"), an Ohio limited liability company. EEG will provide management, educational, financial, and other consulting services necessary to operate the school. According to the agreement, the School will pay a monthly fee of 16% of the School's Qualified Gross Revenues, less the amount of any outstanding default costs and expenses.

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY, AND LEADERSHIP ENTERPRISE
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

	2015	2014	2013
State Teachers Retirement System (STRS) of Ohio			
School's Proportion of the Net Pension Liability	0.00593697%	0.00562466%	0.00562466%
School's Proportionate Share of the Net Pension Liability	$ 1,640,805	$ 1,368,112	$ 1,629,686
School's Covered-Employee Payroll	$ 486,000	$ 618,885	$ 632,069
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	337.61%	221.06%	257.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
School Employees Retirement System (SERS) of Ohio			
School's Proportion of the Net Pension Liability	0.00793170%	0.01130900%	0.01130900%
School's Proportionate Share of the Net Pension Liability	$ 452,590	$ 572,342	$ 672,510
School's Covered-Employee Payroll	$ 253,642	$ 331,934	$ 379,617
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	178.44%	172.43%	177.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY, AND LEADERSHIP ENTERPRISE
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of School's Contributions
Last Ten Fiscal Years

	2016	2015	2014	2013	2012
State Teachers Retirement System of Ohio					
Contractually Required Contribution	$ 79,418	$ 68,040	$ 80,455	$ 82,169	$ 81,979
Contributions in Relation to the Contractually Required Contribution	(79,418)	(68,040)	(80,455)	(82,169)	(81,979)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
School's Covered-Employee Payroll	$ 567,271	$ 486,000	$ 618,885	$ 632,069	$ 630,608
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%
School Employees Retirement System of Ohio					
Contractually Required Contribution	$ 31,755	$ 33,430	$ 46,006	$ 52,539	$ 53,326
Contributions in Relation to the Contractually Required Contribution	(31,755)	(33,430)	(46,006)	(52,539)	(53,326)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
School's Covered-Employee Payroll	$ 226,821	$ 253,642	$ 331,934	$ 379,617	$ 396,476
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007
$ 86,011	$ 80,293	$ 192,512	$ 115,550	$ 78,792
(86,011)	(80,293)	(192,512)	(115,550)	(78,792)
$ 0	$ 0	$ 0	$ 0	$ 0
$ 661,623	$ 617,638	$ 1,480,862	$ 888,846	$ 606,092
13.00%	13.00%	13.00%	13.00%	13.00%
$ 46,166	$ 36,380	$ 36,879	$ 30,376	$ 42,816
(46,166)	(36,380)	(36,879)	(30,376)	(42,816)
$ 0	$ 0	$ 0	$ 0	$ 0
$ 367,271	$ 268,685	$ 374,787	$ 309,328	$ 400,899
12.57%	13.54%	9.84%	9.82%	10.68%

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms:	There were no changes in benefit terms from the amounts reported for fiscal years 2015 and 2016.
Changes in assumptions:	There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms:	There were no changes in benefit terms from the amounts reported for fiscal years 2015 and 2016.
Changes in assumptions:	There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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

Cleveland Academy of Scholarship, Technology and Leadership Enterprise
Cuyahoga County
3950 Prospect Avenue
Cleveland, Ohio 44115

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Cleveland Academy of Scholarship, Technology and Leadership Enterprise, Cuyahoga County, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 10, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

School's *Response to Findings*

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2018

SCHEDULE OF FINDINGS
JUNE 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2016-001

Significant Deficiency – Financial Reporting and Condition of Accounting Records

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements.

All local public offices should maintain or provide accounting records including such information as the loan agreements, board authorization, vendor files and invoices associated with the expense. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records. We noted the following:

- The School did not maintain documentation to support a loan from CEO Kamal Chatman in the amount of $12,250. The loan was subsequently repaid as evidenced on a School bank statement.
- The School did not maintain invoices for four of nine accounts payable transactions selected for testing.

The School experienced high turnover in key management positions after the audit period. This created a significant disconnect with the new management's understanding of the operations which took place during the audit period and contributed to their inability to locate and provide certain supporting records. This deficiency could lead to inaccurate or incomplete financial statements and notes to the financial statements.

We recommend the School implement and maintain controls over accounting records and transactions. To strengthen internal control and accountability we recommend the following:

- Management should ensure adequate documentation is included as support for all loans.
- Management should ensure adequate documentation is included as support for purchases.
- Management should ensure the financial statement line items can be fully supported by supporting documentation.

Official's Response: The School has hired a new management company and a new treasurer. They will ensure adequate documentation is maintained for loans, purchases and any other financial items.

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Dave Yost · Auditor of State

CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE

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 30, 2018