

**Cleveland Arts and Social Sciences Academy
Cuyahoga County, Ohio**

Audited Financial Statements
For the Fiscal Year Ended June 30, 2017



Dave Yost • Auditor of State

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, 2016 through June 30, 2017. 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.

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

Dave Yost
Auditor of State

February 22, 2018

This page intentionally left blank.

**CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY
CUYAHOGA COUNTY, OHIO**

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	13
Required Supplementary Information:	
Schedule of the Academy’s Proportionate Share of the Net Pension Liability	33
Schedule of the Academy’s Contributions	35
Independent Auditors’ Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37

This page intentionally left blank.

December 26, 2017

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, 2017, 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, 2017, 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

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 15 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of \$3,815,917 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 and related accruals totaling \$2,891,892. Note 15 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* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, and *Schedule of the Academy's Contributions* on pages 4-8, 33-34, and 35-36, 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 26, 2017 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 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

This page intentionally left blank

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 - UNAUDITED

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, 2017. 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 twelfth year of operations during fiscal year 2017 serving Kindergarten through eighth grade. Enrollment varied during the year, but the Academy ended the year with 327 students.

Key highlights for fiscal year 2017 are as follows:

- Net position increased \$64,602.
- Operating revenues for fiscal year 2017 were \$2,619,332 as compared to \$2,654,645 for fiscal year 2016.
- Operating expenses for fiscal year 2017 were \$3,217,772 as compared to \$2,848,012 for fiscal year 2016.

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.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017 - UNAUDITED

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Table 1 provides a summary of Academy's net position for 2017 compared to 2016:

**Table 1
Statement of Net Position**

Assets:	2017	2016
Current Assets:		
Cash and Cash Equivalents	\$ 264,642	\$ 204,306
Accounts Receivable	2,183	-
Intergovernmental Receivable	99,689	35,530
Prepaid Expense	78,252	21,261
Other Assets	-	34,783
Total Current Assets	444,766	295,881
<i>Noncurrent assets:</i>		
Capital Assets, net of Accumulated Depreciation	60,480	77,305
Total Noncurrent Assets	60,480	77,305
Total Assets	505,246	373,186
Deferred Outflows of Resources	646,717	269,861
Liabilities:		
Current Liabilities		
Accounts Payable, Trade	34,668	32,220
Accounts Payable, Related Party	146,630	79,237
Accrued Expenses	4,792	-
Total Current Liabilities	186,090	111,457
Noncurrent Liabilities:		
Net Pension Liability	3,276,991	2,680,328
Noncurrent Portion of Long-term Debt	1,243,181	1,243,181
Total Noncurrent Liabilities	4,520,172	3,923,509
Total Liabilities	4,706,262	4,034,966
Deferred Inflows of Resources	261,618	488,600
Net Position		
Invested in Capital Assets	60,480	77,305
Unrestricted Net Position	(3,876,397)	(3,957,824)
Total Net Position	\$ (3,815,917)	\$ (3,880,519)

Total net position increased \$64,602 in fiscal year 2017. However, while still positive, this change in net position was much lower than the prior year primarily due to the debt forgiveness from Accel Schools, the Academy's management company in 2016 and an increase in expenses during fiscal year 2017. The Academy enrollment in fiscal year 2017 was relatively flat at 327 students compared to 332 students in fiscal year in 2016. Enrollment as of November 2017 has decreased to 257.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017 - UNAUDITED**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

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

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

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

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

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Current year changes in deferred outflows/ inflows of resources and the net pension liability are the result of changes in accruals related to GASB 68.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017 - UNAUDITED**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Academy's net position totaled (\$3,815,917).

Table 2 reflects the changes in net position for fiscal year 2017 as compared to 2016:

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

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
State Aid	\$ 2,619,332	\$ 2,608,302
Miscellaneous	-	46,343
Total Operating Revenues	<u>2,619,332</u>	<u>2,654,645</u>
Operating Expenses:		
Purchased Services	3,114,505	2,745,208
Depreciation	16,824	22,573
Supplies	79,375	59,994
Other Operating Expense	7,068	20,237
Total Operating Expenses	<u>3,217,772</u>	<u>2,848,012</u>
Operating Loss	(598,440)	(193,367)
Non-Operating Revenues:		
Federal/State Restricted Grants	694,122	555,959
Debt Forgiveness	-	500,000
Interest Expense	(31,080)	(28,490)
Net Nonoperating Revenues and Expenses	<u>663,042</u>	<u>1,027,470</u>
Change in Net Position	64,602	834,103
Net Position Beginning of Year	<u>(3,880,519)</u>	<u>(4,714,622)</u>
Net Position End of Year	<u>\$ (3,815,917)</u>	<u>\$ (3,880,519)</u>

The Academy saw a decrease in the Change in Net Position experienced in the prior year. This was primarily due to Debt Forgiveness provided to the Academy in the prior year by Accel Schools, the Academy's management company. This did not reoccur in fiscal year 2017. Additionally, the Academy saw a significant increase in Purchased Services over the prior year in the areas of staffing, facility costs, and the professional services.

BUDGETING

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five-year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017 - UNAUDITED

CAPITAL ASSETS

At the end of fiscal year 2017, the Academy had \$60,480 invested in capital assets (net of accumulated depreciation) for computers and software, furniture and equipment, and leasehold improvements. The following table shows fiscal year 2017 compared to 2016:

Capital Assets at June 30 (Net of Depreciation)

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Computers & Software	\$ 60,040	\$ 76,384	\$ (16,344)
Leasehold Improvements	440	920	(480)
Total Capital Assets, Net	<u>\$ 60,480</u>	<u>\$ 77,304</u>	<u>\$ (16,824)</u>

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, 2017. 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, 2017**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 264,642
Accounts Receivable	2,183
Intergovernmental Receivable	99,689
Prepaid Expense	<u>78,252</u>
Total Current Assets	<u>444,766</u>

Noncurrent Assets:

Capital Assets, net of Accumulated Depreciation	<u>60,480</u>
	<u>60,480</u>

Total Assets 505,246

Deferred Outflows of Resources 646,717

Liabilities:

Current Liabilities:

Accounts Payable, Trade	34,668
Accounts Payable, Related Party	146,630
Accrued Expenses	<u>4,792</u>
Total Current Liabilities	<u>186,090</u>

Noncurrent Liabilities:

Net Pension Liability	3,276,991
Noncurrent Portion of Long-term Debt	<u>1,243,181</u>
Total Noncurrent Liabilities	<u>4,520,172</u>

Total Liabilities 4,706,262

Deferred Inflows of Resources 261,618

Net Position:

Invested in Capital Assets	60,480
Unrestricted Net Position	<u>(3,876,397)</u>
Total Net Position	<u><u>\$ (3,815,917)</u></u>

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, 2017**

Operating Revenues:	
State Aid	\$ 2,619,332
Total Operating Revenues	<u>2,619,332</u>
Operating Expenses:	
Purchased Services	3,114,505
Depreciation	16,824
Supplies	79,375
Other Operating Expenses	7,068
Total Operating Expenses	<u>3,217,772</u>
Operating Loss	(598,440)
Non-Operating Revenues and (Expenses):	
Federal and State Restricted Grants	694,122
Interest Expense	(31,080)
Net Non-operating Revenues and (Expenses)	<u>663,042</u>
Change in Net Position	64,602
Net Position Beginning of Year	<u>(3,880,519)</u>
Net Position End of Year	<u>\$ (3,815,917)</u>

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, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$ 2,619,332
Cash Payments to Suppliers for Goods and Services	<u>(3,157,881)</u>
Net Cash Used For Operating Activities	<u>(538,549)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and State Grant Receipts	<u>629,965</u>
Net Cash Provided By Noncapital Financing Activities	<u>629,965</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Note Payable Interest Payments	<u>(31,080)</u>
Net Cash Used For Capital and Related Financing Activities	<u>(31,080)</u>

Net Increase in Cash and Cash Equivalents 60,336

Cash and Cash Equivalents - Beginning of the Year	<u>204,306</u>
Cash and Cash Equivalents - Ending of the Year	<u>\$ 264,642</u>

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, 2017
(Continued)**

Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	\$ (598,440)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities:	
Depreciation	16,824
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
(Increase) in Receivables	(2,183)
(Increase)/ Decrease in Deferred Outflows	(376,856)
Increase/ (Decrease) in Deferred Inflows	(226,982)
Increase/ (Decrease) in Net Pension Liability	596,663
Increase in Prepaid Expense	(56,991)
Increase/ (Decrease) in Accounts Payable, Trade	2,448
Increase in Accounts Payable, Related Party	67,393
Increase/(Decrease) in Accrued Expenses	4,792
(Increase)/Decrease in Other Assets	34,783
Net Cash Used For Operating Activities	<u>\$ (538,549)</u>

See Accompanying Notes to the Basic Financial Statements

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

Measurement Focus - The deferred outflows/deferred inflows of resources 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.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five-year forecast. The Academy’s contract with its sponsor also requires an annual financial plan.

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, 2017.

Prepaid Items - The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2017, 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 2017 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.

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:

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

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017. Net invested in capital assets of \$60,480 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. The deferred outflows of resources related to pension are explained in Note 9.

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. 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 are reported on the statement of net position. (See Note 9)

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/deletions 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.

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.

Implementation of New Accounting Principles - For the fiscal year ended June 30, 2017, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Principles (continued)

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Academy's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. At June 30, 2017, the book balance was \$264,642 and the bank balance of Academy's deposits was \$331,696. Of the bank balance, \$251,039 was covered by federal depository insurance and \$80,657 was uninsured. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. All bank deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral as permitted by the Ohio Revised Code, is held in single financial collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 4 - RECEIVABLES

At June 30, 2017, the Academy had accounts receivables in the amount of \$2,183. These receivables represent monies for shared employee expense, which was not received as of June 30, 2017. The Academy also had intergovernmental receivables of \$99,689. These receivables represent monies due from Title I and Title IIA, which was not received as of June 30, 2017. All receivables are expected to be collected within one year.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Capital Assets:				
Computers & Software	\$ 178,742	\$ -	\$ -	\$ 178,742
Furniture & Equipment	205,880	-	-	205,880
Leasehold Improvements	2,400	-	-	2,400
Total Capital Assets	387,022	-	-	387,022
Less Accumulated Depreciation:				
Computers & Software	(102,358)	(16,344)	-	(118,702)
Furniture & Equipment	(205,880)	-	-	(205,880)
Leasehold Improvements	(1,480)	(480)	-	(1,960)
Total Accumulated Depreciation	(309,718)	(16,824)	-	(326,542)
Total Capital Assets, Net	\$ 77,304	\$ (16,824)	\$ -	\$ 60,480

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 – LONG-TERM OBLIGATIONS

Changes in the Academy’s long-term obligations during fiscal year 2017 were as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017	Dur within One Year
Net Pension Liability (See Note 9):					
STRS	\$ 2,280,061	\$ 392,783	\$ -	\$ 2,672,844	\$ -
SERS	400,267	203,880	-	604,147	-
Total Net Pension Liability	<u>2,680,328</u>	<u>596,663</u>	<u>-</u>	<u>3,276,991</u>	<u>-</u>
Accel Schools - Notes Payable	<u>1,243,181</u>	<u>-</u>	<u>-</u>	<u>1,243,181</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 3,923,509</u>	<u>\$ 596,663</u>	<u>\$ -</u>	<u>\$ 4,520,172</u>	<u>\$ -</u>

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 2017 interest on the note totaled \$31,080. Should the Academy renew the management agreement at the end of fiscal year 2017 for another five years, an additional \$250,000 of debt shall be forgiven. Future obligations under the note are as follows:

<u>Promissory Note</u>		
Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 31,080
2019	-	31,080
2020	-	31,080
2021	-	31,080
2022	-	31,080
2023-2027	-	155,400
2028-2032	-	155,400
2033-2037	-	155,400
2038-2042	-	155,400
2043-2046	1,243,181	95,830
Total	<u>\$ 1,243,181</u>	<u>\$ 872,830</u>

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 2017, 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, 2017, purchased service expenses were as follows:

Personnel Services	\$ 1,540,721
Professional and Technical Services	690,700
Property Services	532,101
Utilities	148,798
Travel and Meetings	576
Communications	20,926
Contractual Trade Services	180,683
	<u>\$ 3,114,505</u>

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 in accrued expenses on the accrual basis of accounting.

School Employees Retirement System (SERS)

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

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

School Employees Retirement System (SERS) - continued

Age and service requirements for retirement are as follows:

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

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

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

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, 2017, 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 2017.

The Academy’s contractually required contribution to SERS was \$29,925 for fiscal year 2017.

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.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

State Teachers Retirement System (STRS) - continued

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

The DC Plan allows members to place all their member contributions and 9.5 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 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

State Teachers Retirement System (STRS) - continued

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, 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 2017 contribution rates were equal to the statutory maximum rates.

The Academy’s contractually required contribution was \$131,704 for fiscal year 2017.

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 July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's employer allocation percentage of the net pension liability was based on the employer’s share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$604,146	\$2,672,845	\$3,276,991
Proportion Share of the Net Pension Liability			
Current Measurement Date	0.00825440%	0.00798507%	
Prior Measurement Date	<u>0.00701470%</u>	<u>0.00825001%</u>	
Change in the Proportionate Share	<u>0.00123970%</u>	<u>-0.00026494%</u>	
Pension Expense	\$58,681	\$95,773	\$154,454

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

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

State Teachers Retirement System (STRS) – continued

At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$8,148	\$107,994	\$116,142
Net difference between projected and actual earnings on pension plan investments	49,835	221,918	271,753
Changes of assumptions	40,330	-	40,330
Change in proportionate share	-	-	-
Difference between Academy contributions and proportionate share of contributions	56,863	-	56,863
Academy contributions subsequent to the measurement date	<u>29,925</u>	<u>131,704</u>	<u>161,629</u>
Total Deferred Outflows of Resources	<u>\$185,101</u>	<u>\$461,616</u>	<u>\$646,717</u>
Deferred Inflows of Resources			
Changes in proportion and differences between Academy contributions and proportionate Share of Contributions	<u>\$ 37,564</u>	<u>\$ 224,054</u>	<u>\$ 261,618</u>

\$161,629 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 27,869	\$ (17,310)	\$ 10,559
2019	27,834	(17,310)	10,524
2020	47,584	67,845	115,429
2021	<u>14,325</u>	<u>72,633</u>	<u>86,958</u>
Total	<u>\$ 117,612</u>	<u>\$105,858</u>	<u>\$223,470</u>

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

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, 2016, 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	3.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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, 2016 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 June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

Actuarial Assumptions – SERS (continued)

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS’ Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset 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
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
	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 earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Academy’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Academy's proportionate share of the net pension liability	\$799,852	\$604,146	\$440,332

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PENSIONS PLANS (continued)

Actuarial Assumptions – STRS - The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 commences on the fifth anniversary of the retirement date

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 The following table presents the Academy's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$3,551,992	\$2,672,845	\$1,931,230

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Academy's net pension liability is expected to be significant.

NOTE 10 – POSTEMPLOYMENT BENEFITS

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 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.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

School Employees Retirement System (SERS)

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 2017, SERS 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 2017, this amount was \$23,500. 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 2017, the Academy's surcharge obligation was \$4,319.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Academy's contributions for health care for the fiscal year ended June 30, 2015, was \$560. The full amount has been contributed for fiscal year 2015.

State Teachers Retirement Systems (STRS)

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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 years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the Academy did not contribute to health care in the last three fiscal years.

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, 2017.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 11 – CONTINGENCIES (continued)

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 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 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 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 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.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 12 – BUILDING LEASES (continued)

The Academy paid \$476,556 for rent during the fiscal year 2017. 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
2018	\$ 500,108
2019	515,112
2020	350,565
Total future minimum lease payments	<u>\$ 1,365,785</u>

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. There is a reduction in the fee as enrollment among all schools sponsored by the Ohio Council of Community Schools and managed by Accel Schools reached certain benchmarks. Total Sponsor Fees incurred during fiscal year 2017 was \$75,783.

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 2017. 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, 2017 was \$393,314 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 2017 was \$2,199,897.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 14 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES (continued)

The following is a summary of the management company expenses during fiscal year 2017:

		Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Total
		1100	1200	2000	
<i>Direct Expenses:</i>					
Salaries & Wages (100 Object Codes)	100	\$ 870,480	\$ 123,495	\$ 185,225	\$ 1,179,200
Employees' Benefits (200 Object Codes)	200	\$ 265,542	\$ 38,774	\$ 40,239	\$ 344,555
Professional & Technical Services (410 Object Codes)	410			\$ 33,157	\$ 33,157
Property Services (420 Object Codes)	420			\$ 117,850	\$ 117,850
Communications (440 Object Codes)	440			\$ 13	\$ 13
Other Supplies (510 Object Codes)	510			\$ 6,073	\$ 6,073
Total Direct Expenses		\$ 1,136,022	\$ 162,269	\$ 382,557	\$ 1,680,848
<i>Indirect Expenses:</i>					
Overhead				\$ 38,925	\$ 38,925
Total Expenses		\$ 1,136,022	\$ 162,269	\$ 421,482	\$ 1,719,773

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, 2017 by each school it manages.

NOTE 15 – MANAGEMENT'S PLAN

For fiscal year 2017, the Academy had a net position deficit of \$(3,815,917). The Academy's net deficit in fiscal year 2017 was an improvement from the \$(3,880,519) net deficit in fiscal 2016. Enrollment was relatively unchanged from fiscal year 2016 to fiscal year 2017 at 332 and 327, respectively. In fiscal year 2018, the enrollment has decreased. As a result, the Academy is very focused on controlling expenses, but is planning to increase enrollment through active advertising via print, radio, mailings and referrals of current parents. This is anticipated to help produce future enrollment growth which will lead to operating surpluses and provide an opportunity for the school to recover from its prior deficits.

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEE'S RETIREMENT SYSTEM OF OHIO
LAST FOUR FISCAL YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.008254400%	0.007014700%	0.00826200%	0.00826200%
Academy's Proportionate Share of the Net Pension Liability	\$ 604,146	\$ 400,267	\$ 418,135	\$ 491,315
Academy's Covered-Employee Payroll	\$ 297,943	\$ 68,321	\$ 226,904	\$ 207,658
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	202.76%	585.84%	184.28%	236.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available

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

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY, OHIO

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST FOUR FISCAL YEARS**

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

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

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 131,704	\$ 115,698	\$ 120,505	\$ 133,712	\$ 127,393
Contributions in Relation to the Contractually Required Contribution	\$ (131,704)	\$ (115,698)	\$ (120,505)	\$ (133,712)	\$ (127,393)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-Employee Payroll	\$ 940,743	\$ 826,414	\$ 860,750	\$ 1,028,554	\$ 979,946
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

	2012	2011	2010	2009	2008
Contractually Required Contribution	\$ 110,384	\$ 115,185	\$ 78,124	\$ 64,133	\$ 37,757
Contributions in Relation to the Contractually Required Contribution	\$ (110,384)	\$ (115,185)	\$ (78,124)	\$ (64,133)	\$ (37,757)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-Employee Payroll	\$ 849,108	\$ 886,038	\$ 600,954	\$ 493,331	\$ 290,438
Contributions as a Percentage of Covered-Employee Payroll	13.00%	13.00%	13.00%	13.00%	13.00%

CLEVELAND ARTS AND SOCIAL SCIENCES ACADEMY - CUYAHOGA COUNTY

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
SCHOOL EMPLOYER'S RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 29,925	\$ 41,712	\$ 9,005	\$ 31,449	\$ 28,740
Contributions in Relation to the Contractually Required Contribution	\$ (29,925)	\$ (41,712)	\$ (9,005)	\$ (31,449)	\$ (28,740)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-Employee Payroll	\$ 213,750	\$ 297,943	\$ 68,321	\$ 226,904	\$ 207,658
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 43,821	\$ 33,761	\$ 14,564	\$ 9,748	\$ 5,042
Contributions in Relation to the Contractually Required Contribution	\$ (43,821)	\$ (33,761)	\$ (14,564)	\$ (9,748)	\$ (5,042)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-Employee Payroll	\$ 325,806	\$ 268,583	\$ 107,562	\$ 99,065	\$ 51,344
Contributions as a Percentage of Covered-Employee Payroll	13.45%	12.57%	13.54%	9.84%	9.82%

December 26, 2017

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, 2017, 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 26, 2017, in which we noted the Academy has suffered recurring losses from operations and has a net position deficit of \$3,815,917, including the net effect of net pension liability and related accruals totaling \$2,891,892, 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.

Cleveland Arts and Social Sciences Academy
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
Page 2 of 2

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



Dave Yost • Auditor of State

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
MARCH 6, 2018