PROMISE ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

GLOBAL AMBASSADORS LANGUAGE ACADEMY
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Promise Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Promise Academy, Cuyahoga County as of June 30, 2017, 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 April 17, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

April 30, 2018

PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2017

The Management's Discussion and Analysis (MD&A) of Promise Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the period ending June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- Total net position decreased to $200,604 for the period ended June 30, 2017, down from, $532,056 for the period ended June 30, 2016.
- Total assets and deferred outflows of resources were $1,307,320 for the period ended June 30, 2017, an increase from $649,536 for the period ended June 30, 2016.
- Total liabilities and deferred inflows of resources increased to $1,106,716 at June 30, 2017 from $117,480 at June 30, 2016.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Statement of Net Position

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

GASB 68 Financial Report for Pensions

During 2015, the School District 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 District'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 District'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 District 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 District'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.

Table 1 provides a summary of the Academy's Statement of Net Position for the period ending June 30, 2017, compared with its Net Position for the period ending June 30, 2016:

(Table 1)

	2017	2016
Current Assets		
Cash and Cash Equivalents	$ 756,995	$ 240,980
Intergovernmental Receivables	228,465	95,028
Total Current Assets	985,460	336,008
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)	285,737	307,425
Deferred Out Flow of Resources	36,123	6,103
Total Non-Current Assets and Deferred Outflow of Resources	321,860	313,528
Total Assets and Deferred Outflow of Resources	$ 1,307,320	$ 649,536
Liabilities		
Current Liabilities		
Accounts Payable	994,477	117,480
Due to Other Governments	55,209	
Total Current Liabilities	1,049,686	117,480
Non-Current Liabilities		
Net Pension Liabilities	57,030	
Total Non-Current Liabilities	57,030	
Total Liabilities and Deferred Inflow of Resources	1,106,716	
Net Position		
Net Investment in Capital Assets	285,737	307,425
Unrestricted (Deficit)	(85,133)	224,631
Total Net Position	$ 200,604	$ 532,056

Table 2 shows the Statement of Revenues, Expenses and Changes in Net Position for the period ending June 30, 2017, comparing it with the Academy's Statement of Revenues, Expenses and Changes in Net Position for the period ending June 30, 2016:

(Table 2)

	2017	2016
Operating Revenues		
Foundation and Poverty Based Assistance Revenues	$ 1,894,943	$ 2,223,758
Other Operating Revenues	52,676	53,207
Total Operating Revenues	$ 1,947,619	$ 2,276,965
Operating Expenses		
Contracted Service Fee	1,740,578	2,264,458
Purchased Services	780,133	802,392
Other Operating Expenses	118,151	78,262
Change in Net Pension Liability	27,010	(6,103)
Material and Supplies	79,335	95,278
Depreciation and Amortization	21,688	79,852
Total Operating Expenses	2,766,895	3,314,139
Operating Income (Loss)	$ (819,276)	$ (1,037,174)
Non-Operating Revenues		
Intergovernmental Revenue - Property tax	185,525	190,448
Intergovernmental Revenue - Federal Grants	294,799	716,964
Other Non-Operating Revenues	7,500	201,899
Total Non-Operating Revenues	487,824	1,109,311
Net Income (Loss)	$ (331,452)	$ 72,137
Net Position at Beginning of Year	$ 532,056	$ 459,919
Net Position at Year End	$ 200,604	$ 532,056

Most Expenses are in Contracted Services as the Academy remits most of its revenue to the Cleveland Municipal School District for reimbursed costs on behalf of the Academy to provide instruction and other costs for the use of their staff.

Capital Assets

The Academy's asset capitalization minimum is $1,000, at June 30, 2017. At June 30, 2017, the Academy had Capital Assets, net of Accumulated Depreciation of $285,737.

Current Financial Issues

The Academy was formed in 2005 and sponsored by the Cleveland Municipal School District. An idea to service students at risk of dropping out of school was turned into a community school by petitioning the Ohio Department of Education for a charter. Through the efforts of many individuals, the charter was issued, but the Academy was only physically materialized through the efforts of Dr. Eugene Sanders in February of 2007.

The Academy officially opened on February 5, 2007. The governing board of the Academy is composed of five members, each appointed, at year end. The Academy receives its finances primarily from state aid. The average number of years' experience for teachers was 16 years.

The Academy completed a 12,697 square feet expansion of its East Wing on its second floor by June 30, 2012. The cost of the expansion was $352,502. Additional 10 offices were added, an exercise room, conference room, as well as testing and instructional areas. The Academy also has two offices on the first floor, for a total cost of $9,697. Total square footage of the Academy is now 31,294.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information contact Kimberly Motley, Treasurer at Promise Academy, 1701 East 13th Street, Cleveland, Ohio 44114 or e-mail at kimberly.motley@neomin.org

PROMISE ACADEMY
CUYAHOGA COUNTY
Statement of Net Position
June 30, 2017

Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$	756,995
Receivables:		
Intergovernmental		228,465
Total Current Assets		985,460
Noncurrent Assets:		
Capital Assets:		
Depreciable Capital Assets		285,737
Deferred Outflows		36,123
Total Noncurrent Assets		321,860
Total Assets		1,307,320
Liabilities		
Current Liabilities:		
Accounts Payable		994,477
Intergovernmental Payable		55,209
Total Current Liabilities		1,049,686
Long-Term Liabilities:		
Net Pension Liability		57,030
Total Long-Term Liabilities		57,030
Total Long-Term Liabilities		57,030
Total Liabilities		1,106,716
Net Assets		
Invested In Capital Assets		285,737
Unrestricted		(85,133)
Total Net Position	$	200,604

See accompanying notes to the basic financial statements

PROMISE ACADEMY
CUYAHOGA COUNTY
Statement of Revenues,
Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues	
Foundation and Poverty Based Assistance Revenues	$ 1,894,943
Other Operating Revenues	52,676
Total Operating Revenues	1,947,619
Operating Expenses	
Contracted Service Fee	1,740,578
Purchased Services	780,133
Other Operating Expenses	118,151
Pension Expense	27,010
Depreciation	21,688
Materials and Supplies	79,335
Total Operating Expenses	2,766,895
Operating Income (Loss)	(819,276)
Non-Operating Revenues	
Personal Property Taxes	185,525
Federal Grants	294,799
Other	7,500
Total Non-Operating Revenues (Expenses)	487,824
Net Income (Loss)	(331,452)
Net Position Beginning of Year	532,056
Net Position End of Year	$ 200,604

See accompanying notes to the basic financial statements

PROMISE ACADEMY
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 1,894,943
Cashed Received from Other Operating Activities	257,410
Cash payments for contracted services	(887,598)
Cash payments to suppliers for goods and services	(158,794)
Cash payments to purchased services	(739,599)
Net Cash Provided by (Used in) Operating Activities	366,362
Cash Flows from Noncapital Financing Activities	
Cash Received From Other non-operating sources	1,460
Cash received from intergovernmental revenue	148,193
Net Cash Provided by (Used in) Noncapital Financing Activities	149,653
Net Increase (Decrease) in Cash and Cash Equivalents	516,015
Cash and Cash Equivalents Beginning of Year	240,980
Cash and Cash Equivalents End of Year	$ 756,995
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	$ (819,276)
Adjustments:	
Depreciation	21,688
(Increase) Decrease in Assets:	
Accounts Receivable	144,694
Increase (Decrease) in Liabilities:	
Accounts Payable	876,997
Intergovernmental Payable	55,209
Changes in Pension Liabilities	87,050
Net Cash Provided by (Used in) Operating Activities	$ 366,362

See accompanying notes to the basic financial statements

Note 1 - Description of the School and Reporting Entity

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

The Academy was approved for operation under a contract with the Cleveland Municipal School District (the Sponsor). For the year ended June 30, 2017, the Academy was operating under a contract with the Sponsor that was entered into July 1, 2013 for a period of five years. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Governing Board controls the Academy's one instructional facility at year end 2017 was staffed by 17 certified full time teaching personnel who provide services to 261 students.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

B. Measurement Focus

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

Note 2 - Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

Similar to other public schools located in the State of Ohio, community school are now required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Office of Community Schools at the Ohio Department of Education.

D. Budgetary Process

Similar to other public schools located in the State of Ohio, community school are now required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Office of Community Schools at the Ohio Department of Education.

E. Cash and Investments

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During fiscal year 2017, the Academy's cash equivalents were limited to a business sweep checking account.

F. Operating Revenues and Expenses

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

G. 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.

H. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulation of other governments. There was no restricted net position.

Note 2 - Summary of Significant Accounting Policies (continued)

I. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at the fair market values as of the date received. The Academy maintains a capitalization threshold of $1,000. The Academy does not possess any infrastructure. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Moveable Structures	25 years
Buildings and Building Improvements	20-40 years
Furniture and Fixtures	10 years
Vehicles	8 years
Equipment	5 years

J. Current Liabilities

The Academy has recognized certain liabilities on its Statement of Net Position relating to expenses which are due but unpaid as of June 30, 2017.

K. Intergovernmental Revenues

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

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

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

Amounts awarded under the above named programs for the 2017 school year totaled $294,799.

Note 2 - Summary of Significant Accounting Policies (continued)

L. 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 positon 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.

Note 3 – Changes in Accounting Principles

The Governmental Accounting Standards Board (GASB) adopted the following; Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Amendments to Certain Provisions of GASB Statements 67 and 68,* GASB Statement No. 76*, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair values application guidance, and enhances disclosures about fair value measurements. The implementation of GASB No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of the investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

Note 4 - Deposits

At fiscal year end June 30, 2017, the carrying amount of the Academy's deposits was $756,995. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures."

Note 4 - Deposits (continued)

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member bank 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 it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy of a qualified trustee by the financial institution as security for repayments, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being pledged.

Note 5 - Capital Assets

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

	Balance at 7/1/16	Additions	Reductions	Balance at 6/30/17
Leasehold Improvements	$798,515	$0	$0	$798,515
Furniture and Fixtures	11,495	$0	$0	11,495
Totals at Historical Cost	810,010	$0	$0	810,010
Less Accumulated Depreciation:				
Leasehold Improvements	(491,090)	(21,688)	0	(512,778)
Furniture and Fixtures	(11,495)		0	(11,495)
Total Accumulated Depreciation	(502,585)	(21,688)	0	(524,273)
Capital Assets, Net	$307,425	$(21,688)	$0	$285,737

Note 6- Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2017, the Academy contracted with commercial insurance companies for the following:

Commercial General Liability:

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

Education Legal/Employment Practice Liability:

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

There have been no claims filed during current audit period or in the previous three years.

B. Workers' Compensation

The Academy does not pay directly into the State Workers' Compensation System. All employees are contracted through Cleveland Municipal School District, which pays the Workers' Compensation System based on their payroll. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

Note 7 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The Cleveland Municipal School District ("CMSD") contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the School Employees Retirement System of Ohio, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Note 7 - Defined Benefit Pension Plans (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the CMSD is required to contribute at an actuarially determined rate. The current CMSD rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2017, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. CMSD's make the contributions to SERS as staff are their employees, Promise reimburses CMSD.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2017 no members of the Board of Education are compensated and have elected Social Security.

Note 8 - Postemployment Benefits

A School Employees Retirement System

Plan Description - The CMSD participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program.

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue.

Code Section 4.01. In 2017, 0.16 percent of covered payroll was allocated to health care.

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.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2017, this actuarially required allocation was 0.74 percent of covered payroll. CMSD contributes to Medicare Part B for the fiscal year ended June 30, 2017, for their staff, Promise Academy reimburses CMSD.

Note 9 - Other Employee Benefits

For fiscal year ended June 30, 2017, all employees are contracted through the Cleveland Municipal School District ("CMSD"). Policies and procedures are approved by CMSD's Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of the staff purchased from CMSD by contract. Please review the Other Employee Benefits Note in CMSD's basic notes to the financial statements in their Comprehensive Annual Financial Report.

10. Defined Pension Benefit Plan

Net Pension Liability

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

The net pension liability represents the 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 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 both the accrual and modified accrual bases of accounting.

10. Defined Pension Benefit Plan (continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description – the School's non-teaching staff are employees of CMSD, except the Treasurer, who is required under ORC 3309 to be a participant 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 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

Three years after an effective benefit date, a benefit recipient is entitled to a maximum 2.5 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 School 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 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School is contractually required contribution to SERS was $4,223 for fiscal year 2017.

10. Defined Pension Benefit Plan (continued)

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, 2016, 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 fact that it does not share contributions to the pension plan relative to the contributions of all participating entities in STRS, as all teaching staff are CMSD's. Following is information related to the proportionate share and pension expense:

	SERS	Total
Proportion of the Net Pension Liability	$ 57,030	$ 57,030
Pension Expense	4,972	4,972

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

	SERS	Total
Deferred Outflows of Resources		
Differences between expected and actual earnings on pension plan investments	$ 287	$ 287
Difference between School District contributions and proportionate share of contributions	26,620	26,620
School District contributions subsequent to the measurement date	5,409	5,409
Change in Prportionate Share	3,807	3,807
Total Deferred Outflows of Resources	$ 36,123	$ 36,123
Deferred Inflows of Resources		
Net difference between projected and actual earnings on pension plan investments	-	-
Difference between School District contributions and proportionate share of contributions	-	-
Total Deferred Inflows of Resources	$ -	$ -

10. Defined Pension Benefit Plan (continued)

$36,123 was reported as deferred outflows of resources related to pension resulting from School's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 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:

Fiscal Year Ending June 30:	SERS	Total
2018	$ 7,678	$ 7,678
2019	7,678	7,678
2020	7,678	7,678
2021	7,680	7,680
Total	$ 30,714	$ 30,714

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	18.20 percent to 3.50% percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Mortality	The RP-2014 Blue Collar Mortaliyy Table with fully generationa projection and Scale BB, 120% of male rates and 110% of female rates used to evaluate allowances to be paid.

10. Defined Pension Benefit Plan (continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – July 1, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*.

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

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

Discount Rate The 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.

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

	1% Decrease (6.5%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	$75,505	$57,030	$41,567

10. Defined Pension Benefit Plan (continued)

Actuarial Assumptions - STRS

Because the School does not employ the certified employees (teachers), the total pension liability in the June 30, 2017 is zero, no actuarial valuation are given as measurement (i.e. all teachers are employees of CMSD).

11. Sponsorship Agreement

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

12. Purchased Service Expenses

For the year ended June 30, 2017, purchased service expenses were payments for services rendered by various vendors as follows:

Rentals	$ 383,152
Utilities	94,549
Tuition Paid - Students	6,525
Professional Technical Services	73,539
Other purchased Services	59,966
Communications	26,693
Instructional Improvements	10,653
Data Processing Services	65,214
Craft & Trade Services	242
Postage	6,011
Advertising	8,807
Repairs & Maintenance	890
Travel, Meeting Expense	4,282
Legal Services	39,610
Total Purchased Services	$ 780,133

13. Operating Lease

On August 1, 2008, the Academy entered into a lease for the current school premises under a non-cancelable agreement that expires on July 31, 2023. The Academy has the option to terminate the lease at the end of the fifth lease year for a terminations fee of $100,000. The Academy also has the option to terminate the lease at the end of the tenth lease year without a termination fee. Lease terms also include a renewal option for an additional five year term at a rental rate equal to 90% of the then market rate for a comparable office building. Rental expense under operating leases was $383,152 in fiscal 2017.

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

2018	$ 438,116
2019	469,410
2020	469,410
2021	469,410
2022	469,410

PROMISE ACADEMY
CUYAHOGA COUNTY

Required Supplemental Information
Schedule of Academy's Proportionate Share of Net Pension Liability
School Employees Retirement System of Ohio (SERS)
Last Two Fiscal Years (*)

	2016	2015
School's Proportion of Net Pension Liability	.0007792%	.0001412%
School's Proportionate Share of the Net Pension Liability	$57,030	$8,057
School's Proportionate Share of the Net Pension Liability as a Percentage Of its Covered Employee-Payroll	189.06%	189.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%

(*) Not Applicable prior to 2015

PROMISE ACADEMY
CUYAHOGA COUNTY

Required Supplemental Information
Schedule of Academy's Contributions
School Employees Retirement System of Ohio (SERS)
Last Three Fiscal Years (*)

	2017	2016	2015
Contractually required contribution	$ 4,223	$ 4,228	$ 589
Contributions in relation to the contractually required contributions	2,420	3,009	1,050
Contribution Deficiency	1,803	1,219	(461)
School's covered employee payroll	30,165	$ 30,201	$ 4,208
Contributions as a percent of covered-employee payroll	8.02%	9.96%	24.96%

No Covered Employees Prior to 2015 (*)

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Promise Academy, Cuyahoga County, (the Academy) as of and for the year ended June 30, 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 April 30, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

April 30, 2018

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	The Academy did not properly track student attendance while students were on line.	Corrective Action is being taken; Partially Corrected	The Academy is in the process of updating its attendance policies and procedures to conform to new requirements. The new attendance procedures should be fully in place during fiscal year 2018 and alleviate the issues totally.

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PROMISE ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 29, 2018

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