PROMISE ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

PROMISE 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, 2016, 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 overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our 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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2016, the Government adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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 schedule 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 June 2, 2017, 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

Dave Yost
Auditor of State
Columbus, Ohio

June 2, 2017

PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2016

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, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- Total net position increased to $532,056 for the period ended June 30, 2016, up from, $459,919 for the period ended June 30, 2015.
- Total assets were $649,536 for the period ended June 30, 2016, a decrease from $1,025,787 for the period ended June 30, 2015, as levy receivables for 2015 were credited/received in 2016.
- Total liabilities decreased to $117,480 from $565,868 as payment for contracted services that were due to the Cleveland Municipal School District at June 30, 2015 were paid in fiscal year 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 liabilities, 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 2016, the Academy 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 Academy'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 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.

PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION and ANALYSIS
FOR THE PERIOD ENDING JUNE 30, 2016

Table 1 provides a summary of the Academy's Statement of Net Position for the period ending June 30, 2016, compared with its Net Position for the period ending June 30, 2015:

(Table 1)

	2016	2015
Current Assets		
Cash and Cash Equivalents	$ 240,980	$ 368,185
Intergovernmental Receivables	95,028	271,905
Total Current Assets	336,008	$ 640,090
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)	307,425	385,697
Deferred Out Flow of Resources	6,103	-
Total Non-Current Assets and Deferred Outflow of Resources	313,528	385,697
Total Assets and Deferred Outflow of Resources	$ 649,536	$ 1,025,787
Liabilities		
Current Liabilities		
Accounts Payable	117,480	565,868
Total Liabilities and Deferred Inflow of Resources	117,480	565,868
Net Position		
Net Investment in Capital Assets	307,425	385,697
Unrestricted (Deficit)	224,631	74,222
Total Net Position	$ 532,056	$ 459,919

Table 2 shows the Statement of Revenues, Expenses and Changes in Net Position for the period ending June 30, 2016, comparing it with the Academy's Statement of Revenues, Expenses and Changes in Net Position for the period ending June 30, 2015:

(Table 2)

	2016	2015
Operating Revenues		
Foundation and Poverty Based Assistance Revenues	$ 2,223,758	$ 2,462,825
Other Operating Revenues	53,207	42,626
Total Operating Revenues	$ 2,276,965	2,505,451
Operating Expenses		
Contracted Service Fee	2,264,458	2,563,918
Purchased Services	802,392	789,090
Other Operating Expenses	78,262	89,431
Change in Net Pension Liability	(6,103)	-
Material and Supplies	95,278	55,352
Depreciation and Amortization	79,852	82,151
Total Operating Expenses	3,314,139	3,579,942
Operating Income (Loss)	$ (1,037,174)	(1,074,491)
Non-Operating Revenues		
Intergovernmental Revenue - Property tax	190,448	318,022
Intergovernmental Revenue - Federal Grants	716,964	
Other Non-Operating Revenues	201,899	1,000
Total Non-Operating Revenues	1,109,311	319,022
Net Income (Loss)	$ 72,137	(755,469)
Net Position at Beginning of Year	$ 459,919	1,215,388
Net Position at Year End	$ 532,056	$ 459,919

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. See Note 12 for more details.

Capital Assets

The Academy's asset capitalization minimum is $5,000, at June 30, 2016. At June 30, 2016, the Academy had Capital Assets, net of Accumulated Depreciation of $307,425.

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 James Vokac, CPA, Treasurer at Promise Academy, 1701 East 13th Street, Cleveland, Ohio 44114 or e-mail at vokaccpa@sbcglobal.net

PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	2016
Current Assets	
Cash and Cash Equivalents	$ 240,980
Intergovernmental Receivables	95,028
Total Current Assets	336,008
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	307,425
Deferred Out Flow of Resources	6,103
Total Non-Current Assets and Deferred Outflow of Resources	313,528
Total Assets and Deferred Outflow of Resources	$ 649,536
Liabilities	
Current Liabilities	
Accounts Payable	117,480
Total Liabilities and Deferred Inflow of Resources	117,480
Net Position	
Net Investment in Capital Assets	307,425
Unrestricted (Deficit)	224,631
Total Net Position	$ 532,056

Notes to the Basic Financial Statements are integral parts of these financial statements.

PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating Revenues	
Foundation and Poverty Based Assistance Revenues	$ 2,223,758
Other Operating Revenues	53,207
Total Operating Revenues	2,276,965
Operating Expenses	
Contracted Service Fee	2,264,458
Purchased Services	802,392
Other Operating Expenses	78,262
Change in Net Pension Liability	(6,103)
Material and Supplies	95,278
Depreciation and Amortization	79,852
Total Operating Expenses	3,314,139
Operating Income (Loss)	(1,037,174)
Non-Operating Revenues	
Intergovernmental Revenue - Property tax	190,448
Intergovernmental Revenue - Federal Grants	716,964
Other Non-Operating Revenues	201,899
Total Non-Operating Revenues	1,109,311
Net Income (Loss)	72,137
Net Position at Beginning of Year	459,919
Net Position at Year End	$ 532,056

Notes to the Basic Financial Statements are integral parts of these financial statements.

PROMISE ACADEMY
CUYAHOGA COUNTY, OHIO

STATEMENT OF CASH FLOWS AS OF JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from State of Ohio	$ 2,223,758	
Cash received from other operating revenues	53,207	
Cash payments to contracted services	(2,151,952)	
Cash payments to suppliers for goods and services	(175,208)	
Cash payments to purchased services	(797,890)	
Net cash used in operating activities		$ (848,085)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash Received from other non-operating sources	3,916	
Cash Received from intergovernmental revenue	716,964	
Net cash provided by non-capital financing activities	-	720,880
NET DECREASE IN CASH AND CASH EQUIVALENTS		(127,205)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		368,185
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 240,980
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH USED IN ACTIVITIES:		
Operating loss		(1,037,174)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation and amortization	79,852	
Increase in accounts payable - operating activities	115,340	
Change in Deferred Outflows	(6,103)	
Total Adjustments		189,089
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES		$ (848,085)

Notes to the Basic Financial Statements are integral parts of these financial statements.

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation under a contract with the Cleveland Municipal School District (the Sponsor). For the year ended June 30, 2016, 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 2016 was staffed by 17 certified full time teaching personnel who provide services to 261 students.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities 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.

C. Basis of Accounting

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

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 Cash Equivalents

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 2016, 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 Academy. For the Academy, these revenues are primarily foundations payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 represent the difference between assets and liabilities. 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.

I. Capital Assets and Depreciation

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 $5,000. The Academy does not possess any infrastructure. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All recorded capital assets are depreciated using the straight line method over the following estimated useful lives.

Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

Assets	Years
Furniture, Fixtures and Equipment	5
Leasehold Improvements	10

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, 2016.

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.

K. Intergovernmental Revenues (Continued)

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 program for the 2016 Academy year totaled $ 2,223,758.

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.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the Academy implemented the Governmental Accounting Standards Board (GASB) 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 Academy.

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 Academy.

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 Academy.

3. CHANGES IN ACCOUNTING PRINCIPLES (CONTINUED)

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 Academy.

4. DEPOSITS

At fiscal year end June 30, 2016, the carrying amount of the Academy's deposits was $240,980. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures."

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.

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2016 follows:

	Balance at 6/30/15	Additions	Disposals	Balance at 6/30/16
Fixed Assets:				
Leasehold Improvements	798,515	-		798,515
Furniture & Equipment	11,495	-		11,495
Total	810,010	-		810,010
Accumulated Depreciation:				
Leasehold Improvements	411,238	79,852		491,090
Furniture & Equipment	11,495	-		11,495
Total	422,733	79,852		502,585
Net Book Value	387,277	(79,852)		307,425

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 2016, 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 two 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.

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.

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, 2014, 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.

C. 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, 2016, no members of the Board of Education have elected Social Security.

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.

In 2016, 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 2016, this actuarially required allocation was 0.74 percent of covered payroll. CMSD contributes to Medicare Part B for the fiscal year ended June 30, 2016, for their staff, Promise Academy reimburses CMSD.

9. OTHER EMPLOYEE BENEFITS

For fiscal year ended June 30, 2016, 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 BENEFIT PENSION PLAN

Net Pension Liability

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

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

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* 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.

Plan Description - School Employees Retirement System (SERS)

Plan Description – the Academy'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 year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, 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 Academy is contractually required contribution to SERS was $2,623 for fiscal year 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy'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	STRS	Total
Proportion of the Net Pension Liability	$ 8,057	$ -	$ 8,057
Pension Expense	$ 2,515		$ 2,515

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

	SERS	STRS	Total
Deferred Outflows of Resources		N/A	
Differences between expected and actual experience	$84		$84
Difference between School District contributions and proportionate share of contributions	5,416		5,416
School District contributions subsequent to the measurement date	603		603
Total Deferred Outflows of Resources	$6,103	$0	$6,103
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$0		$0
Difference between School District contributions and proportionate share of contributions	0		0
Total Deferred Inflows of Resources	$0	$0	$0

$6,103 was reported as deferred outflows of resources related to pension resulting from Academy'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:

	SERS	STRS	Total
Fiscal Year Ending June 30:		N/A	
2017	$25		$25
2018	25		25
2019	25		25
2020	9		9
Total	$84	$0	$84

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	$11,172	$8,057	$5,434

Actuarial Assumptions - STRS

Because the Academy does not employ the certified employees (teachers), the total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement is zero. All teachers are employees of CMSD:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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. 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.

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 for STRS is not applicable (N/A) therefore not 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%)
School District's proportionate share of the net pension liability	$0	$0	$0

Changes Between the Measurement Date and Date of Report In April 2016, the SERS board adopted certain assumptions which impacted their annual actuarial valuation prepared as of June 30, 2016. The exact amount of these changes is not known, the impact on the Academy's net pension liability is expected to be significant,

11. MANAGEMENT AGREEMENT

The Academy has a sponsorship contract with Cleveland Municipal School District ("CMSD"), effective July 1, 2013 through June 30, 2018, for educational and financial 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.

The Cleveland Municipal School District has informed the Academy that the Contracted Service Fee consists of payment for salaries, wages, and benefits.

12. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2016, purchased service expenses were payments for services rendered by various vendors as follows:

Certified Travel	488
Data Processing Services	67,891
Electricity	40,240
Gas	72,337
Instruction Services	49,652
Instructional Improvement	9,551
Internet Access Service	22,439
Management Services	24,200
Noncertificated Travel	1,688
Other Communication Service	3,645
Other Craft & Trade Services	4,986
Other Professional Technical	54,384
Other purchased Services	19,325
Other Travel/Meeting Expense	4,501
Postage	3,136
Postage Machine Rental	988
Professional Legal Services	15,311
Rentals	339,831
Repairs and Maintenance	3,994
Telephone Service	20,306
Tuition PD - Distr In State	43,500
Total Purchased Services	$ 802,392

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 comparable office buildings. Rental expense under operating leases was $339,831 in fiscal 2016.

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

2017	$ 387,358
2018	438,116
2019	438,116
2020	469,410
2021	469,410

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

	2015	2014	2013
School's Proportion of Net Pension Liability	0.0001412%	0%	0%
School's Proportionate Share of the Net Pension Liability	$ 8,057	0	0
School's Covered-Employee Payroll	$ 4,250	0	0
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.58%	0	70.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	70.71%	0

(*) Not applicable prior to 2015.

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

	2016	2015
Contractually required contribution	$ 4,228	$ 589
Contributions in relation to the contractually required contributions	3,009	1,050
Contribution Deficiency	1,219	(461)
School's covered employee payroll	$ 30,201	$ 4,208
Contributions as a percent of covered-employee payroll	9.96%	25.0%

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, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated June 2, 2017, wherein we noted the Academy adopted Government Auditing Standard No. 68, *Accounting and Financial Reporting for Pensions- an amendment to GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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

Dave Yost
Auditor of State
Columbus, Ohio

June 2, 2017

PROMISE ACADEMY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2016

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

1. **Educational Hours**

Finding Number	2016-001

NONCOMPLIANCE

Ohio Rev. Code §3314.03(A)(11)(a) states in part that "Each contract entered into between the sponsor and the governing authority of a community school will comply with the following requirements: The school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred and twenty hours per school year."

Ohio Rev. Code §3301.79(K)(1) defines "Blending Learning" as the delivery of instruction in a combination of time in a supervised physical location away from home and online delivery whereby the student has some element of control over time, place, path, or pace of learning.

Article 45 Section F of the Amended Sponsorship Contract for a Community School between Cleveland Municipal School District and Promise Academy states "The School will enroll at least the minimum number of students required by division (11)(A) of 3314.03 of the Revised Code." The Promise Academy Attendance Policy and Procedures policy states, Promise Academy students are offered a total learning opportunity to work a minimum of 30 hours weekly; 15 hours can be completed on-site within the two sessions: 9:00 a.m.-12:00 p.m. and 12:30 p.m. -3:30 p.m. The remaining 15 hours can be completed by doing a double session, working from home, family member's home, or community library. Further, Exhibit A, Attachment 3, Learning Opportunities, of the Community School Contract, states," Promise Academy engages in students in the use of blended learning as an educational approach to teaching and learning. Blended learning is a formal education program in which a student learns at least in part through delivery of content and instruction via digital and online media with some element of student control over time, place, path, or pace. Students in the Promise Academy classroom engage in the use of online learning as a primary means to immerse students in the learning process. Teachers also facilitate face to face learning opportunities for students, to engage students in more customized teaching and learning."

The contract with the sponsor does comply with the requirements of Ohio Rev. Code §3314.03(A)(11)(a). However, the Academy is open 6 hours per day for 180 days (for a total of 1080 hours), the students are only required to attend school for 3 hours per day. Therefore students are only required to attend school for 540 hours per year which does not meet the 920 hour requirement. The remaining time is to be spent either in second class session or on the computer in their homes, library, or family member's home and is tracked through Gradpoint or other module being used for the lesson. Upon our review of the sign in sheets and computer log-in sheets for three students for the month of February 2016 and noted the following items demonstrating lack of proper attendance tracking:

- Nine instances with no evidence the students were signed into any lab session nor were they logged into the Gradpoint system. None of these instances resulted in the student being marked as absent;

- Gradpont system did not provide times for which the student logged in and out, which made it difficult to determine if the student was logged in during lab sessions or during non-lab hours;

- Not all online systems utilized in teaching students were able to provide documentation of the times the student was logged in and participating; and,

- The sign-in sheets used to document the presence of students did not appear to be actually approved or reviewed by the teacher for accuracy.

Failure of the Academy to require the minimum number of hours of attendance could result in students not receiving credit for attending the Academy and could impact the foundation receipts based attendance.

We recommend the Academy work with the Sponsor, Cleveland Metropolitan School District, to ensure the minimum 920 hours per year are being met. In addition, the Academy and Sponsor should work together to adopt appropriate procedures to ensure attendance is being recorded properly.

Official's Response:

The School disagrees with the AOS findings because the School required students to attend 1050 hours of learning opportunities during the 2015-2016 school year and because the School's attendance documentation procedures in place at the time were consistent with Ohio Department of Education ("ODE") guidance then in effect.

In contrast to the policy described in the AOS finding, the School required more than the legally mandated number of hours of learning opportunities. The School's 2015-2016 policy required students to participate in a minimum of six (6) hours of coursework each day. Students were permitted to satisfy that requirement by attending one or both of the three (3) hours sessions offered on-site at the School each day in addition to logging in to the online curriculum from off-site and during off-hours. During the 2015-2016 school year, the School was open for 175 days. Therefore, the School's students were required to attend 1050 hours of learning opportunities that year which far exceeds the 920 hours legally mandated.

The second concern expressed in the AOS finding relates to the School's process for recording attendance. The School tracks student attendance with on-site sign-in sheets and online curriculum log in credentials. Such an approach is consistent with ODE's guidance in place during the 2015-2016 school year, which states that schools must provide "documentation that clearly demonstrates that the pupil has commenced participation in learning opportunities." The ODE guidance goes on to explain that this may be accomplished either through attendance or evidence that the student has logged into the system." Moreover, since the School's blended learning model allows students to work daily or weekly to complete their coursework, the School does not believe that the specific tracking instances referenced in the AOS finding indicate noncompliance.

Official's Response (continued):

The School is also pleased to report that since the 2015-2016 school year, the School, in collaboration with its sponsor, has already revised its attendance policies and procedures based on subsequent ODE guidance. The School thanks the AOS for its recommendations and will continue to ensure that its students receive the required number of hours of learning opportunities and that attendance is being properly recorded.

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Dave Yost • Auditor of State

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
JUNE 15, 2017

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