



Rea & associates a *brighter* way

# Ohio Connections Academy Cuyahoga County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2018



# OHIO AUDITOR OF STATE KEITH FABER



Board of Trustees  
Ohio Connections Academy  
3740 Euclid Avenue, Suite 101  
Cleveland, Ohio 44115

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

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

February 26, 2019

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**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b><u>TITLE</u></b>	<b><u>PAGE</u></b>
Independent Auditor's Report	1
Management's Discussion and Analysis	5
Basic Financial Statements:	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to the Basic Financial Statements	16
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability	52
Schedule of Academy Contributions - Pension	54
Schedule of the Academy's Proportionate Share of the Net OPEB Liability	56
Schedule of Academy Contributions - OPEB	58
Notes to Required Supplementary Information	60
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	62
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	64
Schedule of Expenditures of Federal Awards	66
Notes to the Schedule of Expenditures of Federal Awards	67
Schedule of Findings and Questioned Costs	68

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December 27, 2018

To the Board of Trustees  
Ohio Connections Academy  
3740 Euclid Avenue, Suite 101  
Cleveland, Ohio 44115

## **Independent Auditor's Report**

### **Report on the Financial Statements**

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

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

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

***Emphasis of a Matter***

As described in Note 16 to the financial statements, the School restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions." Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of the School's Contributions - Pension, Schedule of the School's Proportionate Share of the Net OPEB Liability, and the Schedule of the School's Contributions - OPEB* on pages 5–11, 52-53, 54-55, 56-57 and 58-59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Medina, Ohio

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**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year ended June 30, 2018**

The discussion and analysis of the financial performance of the Ohio Connections Academy, Cuyahoga County, Ohio (the Academy), provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (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. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- For fiscal years 2018 and 2017, total assets and deferred outflows of resources were \$7,572,869 and \$7,817,439.
- For fiscal years 2018 and 2017, total liabilities and deferred inflows of resources were \$19,811,655 and \$26,730,211.
- For fiscal years 2018 and 2017, total net position deficit was \$(12,238,786) and \$(18,912,772).
- For fiscal year 2018, operating revenue increased \$5,945,649 as FTE increased to 3,996. The increase in purchased services are a result of the increased enrollment.
- 2017 amounts for deferred outflows of resources, total liabilities and net position highlighted above are restated to account for the implementation of GASB 75. See note 16 for further information.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the Statement of Net Position. The Statement of Net Position represents the basic statement of position for the Academy. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The Statement of Cash Flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year ended June 30, 2018**

**REPORTING THE ACADEMY AS A WHOLE**

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2018?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include *all assets* and *deferred outflows of resources* and *liabilities* and *deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and change in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**FINANCIAL ANALYSIS**

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

The following tables represent the Academy's condensed financial information derived from the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year ended June 30, 2018**

Table 1 provides a summary of the Academy's Net Position for fiscal years 2018 and 2017:

**Table 1  
Statement of Net Position**

	<b>2018</b>	<b>Restated 2017</b>
<b>Assets</b>		
Current Assets	\$ 2,004,925	\$ 3,615,871
Non-Current Assets	11,518	20,936
Total Assets	<u>2,016,443</u>	<u>3,636,807</u>
Deferred Outflows of Resources	<u>5,556,426</u>	<u>4,180,632</u>
<b>Liabilities</b>		
Current Liabilities	2,005,177	3,626,126
Long Term Liabilities	16,944,591	23,104,085
Total Liabilities	<u>18,949,768</u>	<u>26,730,211</u>
Deferred Inflows of Resources	<u>861,887</u>	<u>-</u>
<b>Net Position</b>		
Investment in Capital Assets	11,518	20,936
Unrestricted	<u>(12,250,304)</u>	<u>(18,933,708)</u>
<b>Total Net Position</b>	<u><u>\$ (12,238,786)</u></u>	<u><u>\$(18,912,772)</u></u>

**OTHER INFORMATION**

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

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year ended June 30, 2018**

and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year ended June 30, 2018**

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

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

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$15,530,135) to (\$18,912,772).

Over time, net position can serve as a useful indicator of a governments financial position. At June 30, 2018, the Academy's net position totaled \$(12,238,786).

Current assets represent cash and cash equivalents, federal grants receivables, prepaids, intergovernmental receivables and other receivables. Current liabilities represent accrued expenses, intergovernmental payable and contracts payable at fiscal year-end. Long term liabilities, deferred inflows/outflows changed due to the net pension and OPEB liability, see further information in Notes 14 and 15.

Cash and contracts payable decreased as a result of the Academy being current on its outstanding obligations to Connections Education.

Intergovernmental Payables decreased as a result of both repaying \$394,000 of the fiscal year 2017 FTE payable and recording an FTE receivable from fiscal year 2018 of \$408,539 which is netted with intergovernmental payable.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year ended June 30, 2018**

Table 2 shows the changes in Net Position for fiscal years 2018 and 2017:

**Table 2  
Changes in Net Position**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
<b>Foundation Payments</b>		
Regular	\$ 24,832,337	\$ 19,896,364
Special Education	3,510,771	2,501,095
<b>Total Operating Revenues</b>	<u>28,343,108</u>	<u>22,397,459</u>
<b>Operating Expenses</b>		
Purchased Services	29,366,404	23,879,456
Pension/OPEB Expense	(5,514,591)	1,720,115
Depreciation	9,417	10,041
<b>Total Operating Expenses</b>	<u>23,861,230</u>	<u>25,609,612</u>
Operating Income /(Loss)	4,481,878	(3,212,153)
<b>Non-Operating Revenues</b>		
Federal Grants	1,926,767	2,103,860
Other Intergovernmental Revenue	263,139	321,979
Interest Earnings	2,202	1,932
<b>Total Non-Operating Revenues</b>	<u>2,192,108</u>	<u>2,427,771</u>
<b>Change in Net Position</b>	<b>6,673,986</b>	<b>(784,382)</b>
<b>Net Position, Beginning of Year, Restated</b>	<u>(18,912,772)</u>	N/A
<b>Net Position, End of Year</b>	<u><b>\$ (12,238,786)</b></u>	<u><b>\$ (18,912,772)</b></u>

Net Position increased by \$6,673,986 in 2018. For fiscal year 2018, operating revenues increased by \$5,945,649 or 27 percent. The increase in operating revenues in fiscal year 2018 was driven by an increase in student FTE. The FTE increased by 628 during FY 18. The Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds are not included in the discussion and analysis. Results of fiscal years 2018 and 2017 operations indicate ending net position of \$(12,238,786) and \$(18,912,772), respectively.

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense



**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Fiscal Year ended June 30, 2018**

amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$10,366 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$631,718. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$	23,861,230
Negative OPEB expense under GASB 75		631,718
2018 contractually required contribution		5,709
Adjusted 2018 program expenses		24,498,657
Total 2017 program expenses under GASB 45		25,609,612
Decrease in program expenses not related to OPEB	\$	1,110,955

The increase in purchased services is primarily due to increases in students served, which is offset by decreases in pension expense discussed in Note 14.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Academy used Federal Implementation Grant funds to purchase furniture and fixtures and computers for its office. This represents the only capital assets owned by the Academy. Capital asset information is summarized in Note 4 to the basic financial statements. The Academy has no long-term debt outstanding. The Academy has other long-term obligations related to pension/OPEB obligations. See Note 7 to the basic financial statements for more detail on the Academy's long-term obligations.

**CONTACTING THE ACADEMY'S MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, Massa Financial Solutions, LLC, 219 East Maple Street, Suite 202, North Canton, Ohio 44720 or e-mail at [dave@massasolutionsllc.com](mailto:dave@massasolutionsllc.com).

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**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2018**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$ 1,286,704
Federal Grants Receivable	507,762
Prepays	29,498
Intergovernmental Receivable	16,815
Other Receivable	164,146
<b>Total Current Assets</b>	<u>2,004,925</u>

**Non-Current Assets**

Capital Assets (Net of Accumulated Depreciation)	<u>11,518</u>
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<b>Total Assets</b>	<u>2,016,443</u>
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**Deferred Outflows of Resources**

Pension	5,378,848
OPEB	177,578
<b>Total Deferred Outflows of Resources</b>	<u>5,556,426</u>

**Liabilities:**

**Current Liabilities:**

Contracts Payable	952,644
Intergovernmental Payable	63,953
Accrued Expense	988,580
<b>Total Current Liabilities</b>	<u>2,005,177</u>

**Long Term Liabilities:**

Pension Liability	14,332,802
OPEB Liability	2,611,789
<b>Total Long Term Liabilities</b>	<u>16,944,591</u>

<b>Total Liabilities</b>	<u>18,949,768</u>
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**Deferred Inflows of Resources**

Pension	550,888
OPEB	310,999
<b>Total Deferred Inflows of Resources</b>	<u>861,887</u>

**Net Position:**

Investment in Capital Assets	11,518
Unrestricted	(12,250,304)
<b>Total Net Position</b>	<u>\$ (12,238,786)</u>

See the Accompanying Notes to the Basic Financial Statements

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2018**

**Operating Revenues:**

Foundation Payments - Regular	24,832,337
Foundation Payments - Special Education	<u>3,510,771</u>

Total Operating Revenues	<u>28,343,108</u>
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**Operating Expenses:**

Purchased Services	29,366,404
Pension/OPEB Expense	(5,514,591)
Depreciation	<u>9,417</u>

Total Operating Expenses	<u>23,861,230</u>
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<i>Operating Income</i>	4,481,878
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**Non-Operating Revenues:**

Federal Grants	1,926,767
Other Intergovernmental Revenue	263,139
Interest Earnings	<u>2,202</u>
Total Non-Operating Revenues	<u>2,192,108</u>

<i>Change in Net Position</i>	6,673,986
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<i>Net Position, Beginning of Year, (Restated see Note 16)</i>	<u>(18,912,772)</u>
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<i>Net Position, End of Year</i>	<u><u>\$ (12,238,786)</u></u>
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See the Accompanying Notes to the Basic Financial Statements

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Cash Flows from Operating Activities:**

Cash Received for School Foundation Payments	\$ 27,577,176
Cash Payments to Suppliers for Goods and Services	<u>(31,325,639)</u>

*Net Cash (Used) for Operating Activities* (3,748,463)

**Cash Flows from Noncapital Financing Activities:**

Federal Grants	1,818,548
Interest	2,202
Other Intergovernmental Revenue	<u>350,827</u>

*Net Cash Provided by Noncapital Financing Activities* 2,171,577

*Net Decrease in Cash and Cash Equivalents* (1,576,886)

Cash and Cash Equivalents at Beginning of Year 2,863,590

Cash and Cash Equivalents at End of Year \$ 1,286,704

**Reconciliation of Operating Loss to Net Cash  
Used for Operating Activities:**

Operating Income	\$ 4,481,878
Depreciation	9,417

**Adjustments to Reconcile Operating Loss to Net**

**Cash Used for Operating Activities:**

Changes in Assets, Liabilities, Deferred Outflows and Inflows of Resources:

Decrease in Intergovernmental Receivable	36,351
(Increase) in Other Receivables	(10,289)
(Decrease) in Contracts Payable	(1,037,618)
Decrease in Intergovernmental Payable	(802,283)
Decrease in Pension / OPEB Liability	(6,159,494)
(Increase) in Deferred Outflows of Resources	(1,375,794)
Increase in Accrued Expense	218,953
Decrease in Prepaid Items	28,529
Increase in Deferred Inflows of Resources	<u>861,887</u>
Total Adjustments	<u><u>(8,239,758)</u></u>

*Net Cash (Used) by Operating Activities* \$ (3,748,463)

See the Accompanying Notes to the Basic Financial Statements

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Ohio Connections Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The mission of the Academy is to leverage technology on behalf of students who need a more personalized approach to education to maximize their potential and meet the highest performance standards. This mission is accomplished through a uniquely individualized learning program that combines the best in virtual education with very real connections among students, family, teachers, and the community. Every Academy student has a Personalized Learning Plan and an entire team of adults (including a parent or other learning coach and an Ohio-certified teacher) committed to the student’s successful fulfillment of that plan. The Academy is a high-quality, high-tech, high-touch virtual “school without walls” that brings out the best in every student through Personalized Performance Learning.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, the Sponsor, for the period July 1, 2008 through June 30, 2018, which was subsequently renewed for an additional five year term. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a six-member Board of Directors (the Board). The Board of Directors may not be fewer than five nor more than eleven members. At least three Directors will be as follows:

- (a) At least one Director shall be the parent of one or more students enrolled in the Academy,
- (b) At least one Director shall be a generally recognized community leader in the area served by the Academy, and
- (c) At least one Director shall be an educator or have experience in education.

Additionally, the Academy entered into a five-year contract on August 7, 2003, with Connections Academy Inc. for curriculum, school management services, instruction, technology and other services, which was restated and assigned to Connections Academy of Ohio, LLC (“CA”) on July 1, 2017, with an expiration date of June 30, 2023. (See Note 10).

**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.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Basis of Presentation**

**Enterprise Accounting**

The Academy's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The Academy uses enterprise accounting to track and report on its financial activities. The Academy uses enterprise accounting to maintain its financial records during the fiscal 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 or services.

**B. Measurement Focus and Basis of Accounting**

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 (e.g., revenues) and decreases (e.g., expenses) in net total position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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, are 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Budgetary Process**

Community Schools are statutorily required to adopt a budget by ORC 3314.032(c). However, unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School’s sponsorship agreement. The contract between the School and its Sponsor does not require the School to follow the provisions of ORC 5705; therefore, no budgetary information is presented in the basic financial statements.

**D. Cash and Cash Equivalents**

Cash held by the Academy is reflected as “Cash and Cash Equivalents” on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. Investments with an initial maturity of more than 3 months are reported as investments. During the fiscal year ended June 30, 2018, the School did not hold any investments.

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program and the State Special Education Program. Foundation and Special Education payments are recognized as operating revenues in the accompanying financial statements. Federal grants awarded and recognized in fiscal year 2018 totaled \$1,926,767. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. When both restricted and unrestricted resources are available for use, it is the Academy’s policy to use restricted resources first, then unrestricted resources as they are needed.

**F. Capital Assets**

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of \$1,000 dollars. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and Fixtures	7 years
Equipment	5 years
Computers	3 years



**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Net Position**

Net Position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy did not have any restricted net position in fiscal year 2018. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**I. 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.

**J. Accrued Liabilities and Long-Term Liabilities**

Obligations incurred but unpaid at June 30 are reported as accrued expenses in the accompanying financial statements. These liabilities consisted of contracts payable, intergovernmental payable and accrued expenses, totaling \$2,005,177 at June 30, 2018. For 2018, intergovernmental payables include monies due back to the State as a result of State funding adjustment. See Note 11 for additional details of state funding adjustments from previous years, netted against receivables from the current year.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Exchange and Non-Exchange Transactions**

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

**L. Deferred Inflows and Deferred Outflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 14 and 15.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position. (See Notes 14 and 15).

**M. Pensions and Other Postemployment Benefits (OPEB)**

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Implementation of New Accounting Principles**

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

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See Note 16 below for the effect on net position as previously reported.

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

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

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

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 3 – DEPOSITS**

**Deposits with Financial Institutions**

The Academy’s financial institution deposits for the year ended June 30, 2018 are as follows:

	<u>2018</u>
Carrying Amount of Deposits	\$ 50,000
Savings	<u>1,281,196</u>
Total	<u>\$ 1,331,196</u>

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, \$1,081,196 was exposed to custodial credit risk as discussed below for the fiscal year ended June 30, 2018, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School’s deposits may not be returned. The School has no deposit policy for custodial credit risk beyond the requirements of state statute. According to state law, public depositories must give security for all public funds on deposits. 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 banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. State law does not require security for public deposits and investments to be maintained in the School’s name. During 2018, the Academy and public depositories complied with the provisions of these statutes

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 4 – CAPITAL ASSETS**

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

	<b>Balance 6/30/2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/2018</b>
<b>Capital assets being depreciated:</b>				
Furniture, fixtures, and equipment	<u>\$ 132,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,819</u>
<b>Less accumulated depreciation:</b>				
Furniture, fixtures, and equipment	<u>(111,884)</u>	<u>(9,417)</u>	<u>-</u>	<u>(121,301)</u>
<b>Capital assets, net of accumulated depreciation</b>	<u><u>\$ 20,935</u></u>	<u><u>\$(9,417)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,518</u></u>

**NOTE 5 - OPERATING LEASES**

The Academy rents multiple office facilities through lease agreements executed between their landlords and CA. The terms of these leases are due to expire over periods ranging from August 31, 2017 through August 31, 2022.

Future minimum lease payments for the operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Mason</u>	<u>Worthington</u>	<u>Total</u>
2019	\$ 55,552	\$ 3,475	\$ 59,027
2020	56,941	-	56,941
2021	58,365	-	58,365
2022	59,824	-	59,824
2023	10,011	-	10,011
<b>Total</b>	<u><u>\$ 240,693</u></u>	<u><u>\$ 3,475</u></u>	<u><u>\$ 244,168</u></u>

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 6 - RECEIVABLES**

Receivables consisted of federal grants, intergovernmental receivables, and other receivables as of June 30, 2018.

Title I Improving Basic Program	\$ 168,514
Title II-A Improving Teacher Quality	55,808
Title VI-B Special Education	154,735
School Improvement	121,756
ECSC	705
Title IV A	3,470
Secondary Transition	2,774
Intergovernmental Receivable	16,815
Other Receivable	164,146
<b>Total</b>	<u><u>\$ 688,723</u></u>

**NOTE 7 – LONG TERM OBLIGATIONS**

The changes in the Academy’s long-term obligations during fiscal year 2018 were as follows:

	<b>Restated Principal Outstanding 06/30/17</b>	<b>Additions</b>	<b>Deductions</b>	<b>Principal Outstanding 06/30/18</b>
Net Pension Liability:				
STRS	\$ 18,458,239	\$ -	\$ (5,161,595)	\$ 13,296,644
SERS	1,252,843	-	(216,685)	1,036,158
Total Net Pension Liability	19,711,082	-	(5,378,280)	14,332,802
Net OPEB Liability:				
STRS	2,949,096	-	(765,213)	2,183,883
SERS	443,907	-	(16,001)	427,906
Total Net OPEB Liability	3,393,003	-	(781,214)	2,611,789
Total Long-Term Obligations	<u>\$ 23,104,085</u>	<u>\$ -</u>	<u>\$ (6,159,494)</u>	<u>\$ 16,944,591</u>

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 8 – RISK MANAGEMENT**

**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 and natural disasters. For fiscal year 2017, the Academy contracted with CA to provide insurance in the following amounts through being included as an additional insured on their policy with Hanover Insurance Company for the following coverage:

- Commercial general liability:
  - \$1,000,000 general liability each occurrence
  - \$2,000,000 general liability aggregate
  - \$1,000,000 automobile liability
  - \$5,000,000 umbrella liability each occurrence
  - \$5,000,000 umbrella liability aggregate

There were no settlements in excess of insurance coverage over the past three years, nor was there a significant reduction in coverage from the prior year.

**NOTE 9 – SPONSOR AGREEMENT**

The sponsorship agreement with Ohio Council of Community Schools requires that the Academy shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to the Sponsor a percent determined by the monthly FTE of all base per pupil cost payments received from the state in consideration for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. The percentage is determined as follows: FTE of less than 3,750 equals 2.5 percent, FTE between 3,750-4,000 equals 2.15 percent, FTE between 4,000 and 4,250 equals 2.0 percent, FTE between 4,250 and 4,500 equals 1.75 percent and FTE greater than 4,500 equals 1.5 percent.

The total sponsorship fees paid totaled \$634,952 for the fiscal year ended June 30, 2018.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES**

The Academy entered into a five-year contract on August 7, 2003 with Connections Academy, Inc. This agreement was restated and assigned to Connections Academy of Ohio, LLC (“CA”) on July 1, 2016. In the agreement, which expired on June 30, 2017, and renewed through June 30, 2023, CA agrees to provide curriculum, instruction, technology and other school management services. Under the contract, the following terms were agreed upon:

CA will provide direct materials/services or procurement and payment services for the following:

1. Instructional materials as approved by the Board and the Sponsor.
2. Various educational protocols and assessments.
3. Administrative personnel, including health and other benefits, as approved by the Board and the Sponsor where required.
4. Teaching staff, including health and other benefits, as approved by the Board.
5. Educational support services for participating families.
6. Training and other professional development as approved by the Board.
7. Hardware and software as approved by the Board.
8. Technical support for any hardware and software provided under the contract.
9. Maintenance of student records.
10. Services to special needs students as required by law.
11. Administrative services including expenditures for a facility and capital, both of which require Board approval.
12. Financial, treasury and other reporting as required by law.
13. Student recruiting and community education.
14. General school management.

For the services listed above, the Academy is required to reimburse certain actual expenses, pay a fee based on enrollment statistics and pay a school management fee to CA. The school management fee is not to exceed 15 percent of all funds received by the Academy. The total expense on an accrual basis under this contract for fiscal year 2018 totaled \$28,506,635. Of this amount, \$952,644 represents a contract payable at June 30, 2018. Additionally, the Academy was issued service credits from CA totaling \$5,271,300 at June 30, 2018.



**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 10 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES  
(CONTINUED)**

For the year ended June 30, 2018, CA incurred the following expenses on behalf of the Academy:

	<b>Regular Instruction</b>	<b>Special Instruction</b>	<b>Other Instruction</b>	<b>Support Services</b>	<b>Non-Instructional</b>	<b>Total</b>
<i>Direct expenses:</i>						
100 Salaries & wages	\$ 5,006,557	\$ 2,072,210	\$ -	\$ 1,125,003	\$ -	\$ 8,203,770
200 Employees' benefits	1,050,472	417,850	-	185,924	-	1,654,246
410 Professional & technical services	492,954	1,173,509	-	27,270	38,395	1,732,128
420 Property services	-	-	-	190,103	-	190,103
430 Travel	153,679	51,937	-	-	-	205,616
440 Communications	-	-	-	99,416	-	99,416
450 Utilities	-	-	-	1,190	-	1,190
460 Contracted craft or trade services	-	-	-	10,443	-	10,443
490 Other purchased services	6,941	31,906	17,939	87,468	-	144,254
510 Other supplies	54,252	27,636	-	27,522	-	109,410
520 Books, periodicals & films	2,304	778	-	-	-	3,082
DIR Other direct costs	2,495,935	843,521	-	-	-	3,339,456
<i>Indirect expenses:</i>						
OH Overhead	3,090,414	1,368,897	-	694,434	2,341,973	7,495,718
<b>Total expenses</b>	<b>\$ 12,353,508</b>	<b>\$ 5,988,244</b>	<b>\$ 17,939</b>	<b>\$ 2,448,773</b>	<b>\$ 2,380,368</b>	<b>\$ 23,188,832</b>

The Management Company incurs a variety of costs including general and administrative costs, marketing costs, software development costs, curriculum development costs, enrollment and placement costs, fulfillment and asset tracking costs, legal costs, and other costs associated with providing services to more than one school. These costs are not charged directly to the schools but are allocated internally by the Management Company pro rata based on the number of total students that have enrolled in each school.

**NOTE 11 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, the Academy has complied with all grant requirements.

**B. Litigation**

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 11 – CONTINGENCIES (CONINTUED)**

**C. School Foundation**

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the Academy for fiscal year 2018.

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

In addition, the Academy's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2018 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

**NOTE 12 – TAX EXEMPT STATUS**

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's nonprofit status. The Academy was approved on October 26, 2006 for tax exempt status under 501(c)3 of the Internal Revenue Code. The approval had a retroactive date of July 3, 2003.

**NOTE 13 – MANAGEMENT COMPANY**

The Academy has contracted with CA to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately is responsible for remitting retirement contributions to the State Teachers Retirement System and the School Employees Retirement System.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

The net pension liability represents the 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*.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

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

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of any employer contributions to the Health Care Fund for fiscal year 2018.

The Academy's contractually required contribution to SERS was \$87,736 for fiscal year 2018. Of this amount \$16,815 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions are to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$1,028,950 for fiscal year 2018.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (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, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.01711750%	0.05514364%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.01734220%</u>	<u>0.05597358%</u>	
Change in Proportionate Share	<u>0.00022470%</u>	<u>0.00082994%</u>	
Proportionate Share of the Net Pension Liability	\$ 1,036,158	\$ 13,296,644	\$ 14,332,802
Pension Expense	\$ (34,710)	\$ (4,884,578)	\$ (4,919,288)

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

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 44,593	\$ 513,454	\$ 558,047
Changes of assumptions	53,581	2,908,122	2,961,703
Changes in proportion and differences between contributions and proportionate share of contributions	8,327	734,085	742,412
Academy contributions subsequent to the measurement date	<u>87,736</u>	<u>1,028,950</u>	<u>1,116,686</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 194,237</u>	<u>\$ 5,184,611</u>	<u>\$ 5,378,848</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$ -	\$ 107,166	\$ 107,166
Net difference between projected and actual earnings on pension plan investments	<u>4,918</u>	<u>438,804</u>	<u>443,722</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 4,918</u>	<u>\$ 545,970</u>	<u>\$ 550,888</u>



**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

\$1,116,686 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 44,141	\$ 847,954	\$ 892,095
2020	64,701	1,444,884	1,509,585
2021	16,896	1,037,224	1,054,120
2022	<u>(24,155)</u>	<u>279,629</u>	<u>255,474</u>
Total	<u>\$ 101,583</u>	<u>\$ 3,609,691</u>	<u>\$ 3,711,274</u>

***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.

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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 an arithmetic 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.

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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
	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investment was applied to all periods of projected benefits to determine the total net 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 7.50 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.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Academy's proportionate share of the net pension liability	\$ 1,437,918	\$ 1,036,158	\$ 699,602

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

*Actuarial Assumptions - STRS*

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

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

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

\* The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 14 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

\*\* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio’s investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Academy’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Academy’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$19,060,287	\$ 13,296,644	\$ 8,441,639

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

*Net OPEB Liability*

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

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

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was \$2,460.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy’s contractually required contribution to SERS was \$5,709 for fiscal year 2018.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.



**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.01557365%	0.05514364%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.01594440%</u>	<u>0.05597358%</u>	
Change in Proportionate Share	<u>0.00037075%</u>	<u>0.00082994%</u>	
Proportionate Share of the Net OPEB Liability	\$ 427,906	\$ 2,183,883	\$ 2,611,789
OPEB Expense	\$ 28,344	\$ (660,062)	\$ (631,718)

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ -	\$ 126,067	\$ 126,067
Changes in proportion and differences between contributions and proportionate share of contributions	7,757	38,045	45,802
Academy contributions subsequent to the measurement date	<u>5,709</u>	<u>-</u>	<u>5,709</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 13,466</u>	<u>\$ 164,112</u>	<u>\$ 177,578</u>
<b>Deferred Inflows of Resources</b>			
Changes of assumptions	\$ 40,606	\$ 175,919	\$ 216,525
Net difference between projected and actual earnings on pension plan investments	<u>1,130</u>	<u>93,344</u>	<u>94,474</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 41,736</u>	<u>\$ 269,263</u>	<u>\$ 310,999</u>

\$5,709 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (12,184)	\$ (25,304)	\$ (37,488)
2020	(12,184)	(25,304)	(37,488)
2021	(9,327)	(25,304)	(34,631)
2022	(284)	(25,304)	(25,588)
2023	-	(1,968)	(1,968)
Thereafter	-	(1,967)	(1,967)
Total	\$ (33,979)	\$ (105,151)	\$ (139,130)

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS’ actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.00 %</u>	

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	\$ 516,751	\$ 427,906	\$ 357,518

	1% Decrease (6.5 % decreasing to 4.0%)	Current Trend Rate (7.5 % decreasing to 5.0%)	1% Increase (8.5 % decreasing to 6.0%)
Academy's proportionate share of the net OPEB liability	\$ 347,213	\$ 427,906	\$ 534,703

***Actuarial Assumptions – STRS***

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

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

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

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

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

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

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan’s fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit



**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year ended June 30, 2018**

**NOTE 15 – DEFINED BENEFIT OPEB PLANS (CONTINUED)**

payments was used to measure the total OPEB liability at June 30, 2016.

*Sensitivity of the Academy’s Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate* The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (3.13%)</u>	<u>Current Discount Rate (4.13%)</u>	<u>1% Increase (5.13%)</u>
Academy's proportionate share of the net OPEB liability	\$ 2,931,827	\$ 2,183,883	\$ 1,592,762

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Academy's proportionate share of the net OPEB liability	\$ 1,517,268	\$ 2,183,883	\$ 3,061,225

**NOTE 16 – RESTATEMENT OF NET POSITION**

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	\$ 15,530,135
Adjustments:	
Net OPEB liability	3,393,003
Deferred Outflow - Payments Subsequent to Measurement Date	<u>(10,366)</u>
Restated Net Position June 30, 2017	<u>\$ 18,912,772</u>

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

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

**LAST FIVE FISCAL YEARS (1)**

	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.0173422%	0.0171175%	0.0171821%	0.0171400%	0.0171400%
Academy's Proportionate Share of the Net Pension Liability	\$ 1,036,158	\$ 1,252,843	\$ 980,427	\$ 867,446	\$ 1,019,261
Academy's Covered Payroll	\$ 527,436	\$ 603,086	\$ 517,269	\$ 498,066	\$ 474,465
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	196.45%	207.74%	189.54%	174.16%	214.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

See accompanying notes to the required supplementary information.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

**LAST FIVE FISCAL YEARS (1)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.05597358%	0.05514364%	0.05269323%	0.05161239%	0.05161239%
Academy's Proportionate Share of the Net Pension Liability	\$ 13,296,644	\$ 18,458,239	\$ 14,562,867	\$ 12,553,919	\$ 14,954,147
Academy's Covered Payroll	\$ 6,153,607	\$ 5,850,600	\$ 5,496,921	\$ 5,679,000	\$ 4,962,569
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	315.49%	264.93%	221.06%	301.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

See accompanying notes to the required supplementary information.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF ACADEMY CONTRIBUTIONS - PENSION  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

**LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 87,736	\$ 73,841	\$ 84,432	\$ 68,176	\$ 69,032	\$ 65,666	\$ 57,307	\$ 47,203	\$ 48,886	\$ 15,264
Contributions in Relation to the Contractually Required Contribution	<u>(87,736)</u>	<u>(73,841)</u>	<u>(84,432)</u>	<u>(68,176)</u>	<u>(69,032)</u>	<u>(65,666)</u>	<u>(57,307)</u>	<u>(47,203)</u>	<u>(48,886)</u>	<u>(15,264)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Academy Covered Payroll	\$ 649,896	\$ 527,436	\$ 603,086	\$ 517,269	\$ 498,066	\$ 474,465	\$ 426,074	\$ 375,521	\$ 361,049	\$ 155,122
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE ACADEMY CONTRIBUTIONS - PENSION  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

**LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 1,028,950	\$ 861,505	\$ 819,084	\$ 769,569	\$ 738,270	\$ 645,134	\$ 596,917	\$ 505,634	\$ 424,111	\$ 317,596
Contributions in Relation to the Contractually Required Contribution	<u>(1,028,950)</u>	<u>(861,505)</u>	<u>(819,084)</u>	<u>(769,569)</u>	<u>(738,270)</u>	<u>(645,134)</u>	<u>(596,917)</u>	<u>(505,634)</u>	<u>(424,111)</u>	<u>(317,596)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 7,349,643	\$ 6,153,607	\$ 5,850,600	\$ 5,496,921	\$ 5,679,000	\$ 4,962,569	\$ 4,591,669	\$ 3,889,492	\$ 3,262,392	\$ 2,443,046
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE  
OF THE NET OPEB LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

**LAST TWO FISCAL YEARS (1)**

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.01594440%	0.01557365%
Academy's Proportionate Share of the Net OPEB Liability	\$ 427,906	\$ 443,907
Academy's Covered Payroll	\$ 527,436	\$ 603,086
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	81.13%	73.61%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

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

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

See accompanying notes to the required supplementary information

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE  
OF THE NET OPEB LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

**LAST TWO FISCAL YEARS (1)**

	2018	2017
Academy's Proportion of the Net OPEB Liability	0.05597358%	0.05514364%
Academy's Proportionate Share of the Net OPEB Liability	\$ 2,183,883	\$ 2,949,096
Academy's Covered Payroll	\$ 6,153,607	\$ 5,850,600
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	50.41%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

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

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

See accompanying notes to the required supplementary information

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF ACADEMY CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

**LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution (1)	\$ 5,709	\$ 10,366	\$ 273	\$ 4,242	\$ 697	\$ 756	\$ 2,251	\$ 16,044	\$ 9,492	\$ 6,150
Contributions in Relation to the Contractually Required Contribution	<u>(5,709)</u>	<u>(10,366)</u>	<u>(273)</u>	<u>(4,242)</u>	<u>(697)</u>	<u>(756)</u>	<u>(2,251)</u>	<u>(16,044)</u>	<u>(9,492)</u>	<u>(6,150)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Academy Covered Payroll	\$ 649,896	\$ 527,436	\$ 603,086	\$ 517,269	\$ 498,066	\$ 474,465	\$ 426,074	\$ 375,521	\$ 361,049	\$ 155,122
OPEB Contributions as a Percentage of Covered Payroll (1)	0.88%	1.97%	0.05%	0.82%	0.14%	0.16%	0.53%	4.27%	2.63%	3.96%

(1) Includes Surcharge

See accompanying notes to the required supplementary information



**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF ACADEMY CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

**LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ 56,790	\$ 49,626	\$ 45,917	\$ 38,895	\$ 32,624	\$ 24,430
Contributions in Relation to the Contractually Required Contribution	-	-	-	-	(56,790)	(49,626)	(45,917)	(38,895)	(32,624)	(24,430)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 7,349,643	\$ 6,153,607	\$ 5,850,600	\$ 5,496,921	\$ 5,679,000	\$ 4,962,569	\$ 4,591,669	\$ 3,889,492	\$ 3,262,392	\$ 2,443,046
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

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

**NET PENSION LIABILITY**

**Changes of benefit terms – SERS**

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

The following changes were made to the benefit terms in 2018 as identified: The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

***Changes in assumptions – SERS***

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016 and 2018. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement (h) change in discount rate from 7.75% to 7.5%.

***Changes in benefit terms – STRS***

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

***Changes in assumptions – STRS***

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) inflation assumption lowered from 2.75% to 2.50%, (b) investment return assumption lowered from 7.75% to 7.45%, (c) total salary increases rates lowered by decreasing the merit component of the individual salary increases, as well as by 0.25% due to lower inflation, (d) payroll growth assumption lowered to 3.00%, (e) updated the healthy and disable mortality assumption to the “RP-2014” mortality tables with generational improvement scale MP-2016, (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

**OHIO CONNECTIONS ACADEMY  
CUYAHOGA COUNTY**

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

**NET OPEB LIABILITY**

*Changes in Assumptions – SERS*

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

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense,  
including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

*Changes in Assumptions – STRS*

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

Also, for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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December 27, 2018

To the Board of Trustees  
Ohio Connections Academy  
3740 Euclid Avenue, Suite 101  
Cleveland, Ohio 44115

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Connections Academy, Cuyahoga County, Ohio (the "Academy") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 27, 2018, in which we noted the Academy restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions."

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Rea & Associates, Inc.*

Medina, Ohio

December 27, 2018

To the Board of Trustees  
Ohio Connections Academy  
3740 Euclid Avenue, Suite 101  
Cleveland, OH 44115

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance Required by the Uniform Guidance**

**Report on Compliance for Each Major Federal Program**

We have audited the Ohio Connections Academy's, Cuyahoga County, Ohio (the "Academy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2018. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Hea & Associates, Inc.*

Medina, Ohio



**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Total Provided to Subrecipients	Disbursements
<b>U. S. Department of Education</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2018	\$ 0	\$ 1,118,330
<i>Special Education Cluster:</i>				
Early Childhood Special Education - Grants to States	84.173	2018	0	2,037
IDEA Part B	84.027	2018	0	684,643
<i>Total Special Education Cluster</i>			0	686,680
<i>Total U.S. Department of Education</i>			0	1,805,010
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$ 0</b>	<b>\$ 1,805,010</b>

See the Notes to the Schedule of Expenditures of Federal Awards.

**OHIO CONNECTIONS ACADEMY**  
**CUYAHOGA COUNTY**

*Notes to the Schedule of Expenditures of Federal Awards*  
*2 CFR §200.510(b)(6)*  
*For the Fiscal Year Ended June 30, 2018*

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Ohio Connections Academy, Cuyahoga County, Ohio (the Academy) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Academy has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – TRANSFERS**

The Academy generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, an Academy can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the Academy a total of 27 months to spend the assistance. During fiscal year 2018, the ODE authorized the following transfers:

CFDA Number / Grant Title	Grant Year	Transfer Out	Transfer In
84.367 Title II-A Improving Teacher Quality	2017	\$5,806	
84.367 Title II-A Improving Teacher Quality	2018		\$5,806

**OHIO CONNECTIONS ACADEMY  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 2 CFR §200.515  
 JUNE 30, 2018**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d) (1) (iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d) (1) (vii)	Major Programs (list):  Title I	CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None were noted.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None were noted.

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# OHIO AUDITOR OF STATE KEITH FABER



**OHIO CONNECTIONS ACADEMY**

**CUYAHOGA COUNTY**

### **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 12, 2019**