ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

Dave Yost · Auditor of State

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

Albert Einstein Academy for Letters, Arts and Sciences
Cuyahoga County
3550 Crocker Road
Westlake, Ohio 44145

To the Board of Overseers:

Report on the Financial Statements

We have audited the accompanying financial statements of the Albert Einstein Academy for Letters, Arts and Sciences, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Albert Einstein Academy for Letters, Arts and Sciences, Cuyahoga County, Ohio, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Unaudited)

As management of Albert Einstein Academy for Letters, Arts and Sciences (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the Academy are as follows:

- In total, net position was $264,495 at June 30, 2015.
- The Academy's total assets were $555,132 and total liabilities were $391,190 at end of the fiscal year.
- The Academy had operating revenues of $1,535,787, operating expenses of $1,170,102 and non-operating revenues of $44,599 for the fiscal year ended June 30, 2015. Total change in net position for the year was an increase of $410,284.

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

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

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

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

Financial Highlights (continued)

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

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Using this Annual Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer the question, "How did we do financially during the fiscal year?" The Statement of Net Position includes all assets and liabilities, deferred outflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Academy's net position; however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The Statement of Revenues, Expenses and Changes in Net Position reports the changes 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 causes of this change may be the result of many factors, some financial, some not.

Statement of Net Position

The Statement of Net Position answers the question of how well the Academy performed financially during 2015. This statement includes all assets, deferred outflows of resources, liabilities, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the Academy's Net Position for fiscal year 2015 and fiscal year 2014.

Table 1
Statement of Net Position

	2015	2014
Assets		
Current Assets	$ 285,716	$ 21,680
Capital Assets, Net	269,416	-
Total Assets	555,132	21,680
Deferred Outflow of Resources		
Pension System	100,553	-
Liabilities		
Current Liabilities	391,190	167,469
Long Term Liabilities	-	-
Total Liabilities	391,190	167,469
Net Position		
Investment in Capital Assets	269,416	-
Unrestricted	(4,921)	(145,789)
Total Net Position	$ 264,495	$ (145,789)

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2015, the Academy's net position was $264,495.

Current assets include the Academy's cash and cash equivalents and intergovernmental receivable. Current liabilities include accounts payable, accrued wages and benefits, loans payable and intergovernmental payable.

The Academy had $269,416 invested in capital assets at the end of fiscal year 2015.

Statement of Revenues, Expenses, and Changes in Net Position

Table 2 shows the changes in net position for fiscal year 2015, as well as a listing of revenues and expenses.

Table 2
Change in Net Position

	2015	2014
Operating Revenue		
Foundation Payments	$ 1,526,599	$ 739,291
Casino Revenue	8,115	-
Student Receipts	1,073	-
Total Operating Revenues	1,535,787	739,291
Operating Expenses		
Salaries	732,179	-
Benefits	12,383	-
Purchased Services	394,482	814,616
Materials and Supplies	27,869	94,538
Depreciation	2,724	-
Other	465	5,122
Total Operating Expenses	1,170,102	914,276
Operating Income (Loss)	365,685	(174,985)
Non-Operating Revenues		
Federal and State Grants	32,837	13,572
Donations	11,762	3,919
Other Non-Operating Revenue	-	11,705
Total Non-Operating Revenue	44,599	29,196
Change in net position	$ 410,284	$ (145,789)
Net Position, Beginning of Year	**(145,789)**	**-**
Net Position, End of Year	**$265,495**	**$ (145,789)**

The increase in revenues received in 2015 was due to the Academy's state aid based on an increase in full-time equivalency (FTE) enrollment. The Academy's most significant expense was "Salaries" in fiscal year 2015 and "Purchased Services" in fiscal year 2014. The decrease in purchased services and increase in salaries is due to employees of the Academy being employed by the sponsor in 2014 and employees of the Academy in 2015.

Capital Assets

At the end of fiscal year 2015, the Academy had $269,416 in leasehold improvements. Table 3 shows the balance for fiscal year 2015 compared to 2014.

	2015	2014
Leasehold Improvements	$ 269,416	$ -
Totals	$ 269,416	$ -

For more information on capital assets, see note 9 in the notes to the financial statements.

Debt

The Academy had a loan from AEALAS Inc of $187,140 at June 30, 2015.

Current Financial Issues

The Academy is dependent upon legislative and governmental support to fund ongoing operations. The Academy is expected to grow in both the number of students and support staff as it enters the third year of operation, which will impact the Academy's funding since the Academy receives a majority of its financial support from per student state foundation payments.

Contacting the School's Financial Management

This financial report is designed to provide a general overview of the finances of the Albert Einstein Academy for Letters, Arts and Sciences and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Albert Einstein Academy for Letters, Arts and Sciences, 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS		
Current Assets		
Cash & Cash Equivalents	$	252,879
Intergovernmental receivable		32,837
Total Current Assets		285,716
Noncurrent Assets		
Capital Assets, Net		269,416
Total Assets		555,132
DEFERRED OUTFLOWS OF RESOURCES		
Pension System		100,553
LIABILITIES		
Current Liabilities		
Accounts Payable		21,307
Intergovernmental Payable		24,014
Loans Payable		187,140
Accrued Wages and Benefits		158,729
Total Liabilities		391,190
NET POSITION		
Invested in Capital Assets		269,416
Unrestricted		(4,921)
Total Net Position	$	264,495

The accompanying notes to the financial statements are an integral part of this statement.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES		
Foundation Payments	$	1,526,599
Casino Revenue		8,115
Student Receipts		1,073
Total Operating Revenues		1,535,787
OPERATING EXPENSES		
Salaries		732,179
Benefits		12,383
Purchased Services		394,482
Materials and Supplies		27,869
Depreciation		2,724
Other Expenses		465
Total Operating Expenses		1,170,102
Operating Income		365,685
NON-OPERATING REVENUES		
Federal Grants		32,837
Donations		11,762
Total Non-Operating revenues		44,599
Change in Net Position		410,284
Net Position, July 1, 2014		(145,789)
Net Position, June 30, 2015	$	264,495

The accompanying notes to the financial statements are an integral part of this statement.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from State Aid	$	1,415,969
Cash Payments to Suppliers for Goods and Services		(943,657)
Net Cash Used for Operating Activities		472,312
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Cash Payments for Capital Acquisitions		(272,140)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received from Grant Programs		32,837
Cash Received from Donations		11,762
Net Cash Received from Non-capital Financing Activities		44,599
Net increase in cash and cash equivalents		244,771
Cash and Cash Equivalents at Beginning of Year		8,108
Cash and Cash Equivalents at End of Year	$	252,879
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating Income	$	365,685
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Depreciation		2,724
Changes in Assets, Liabilities, and Deferred Outflows/Inflows of Resources:		
Intergovernmental Receivable		(19,265)
Pension Deferred Outflows		(100,553)
Accounts Payable		(146,162)
Accrued Wages and Benefits		158,729
Intergovernmental Payable		24,014
Loans Payable		187,140
Total Adjustments		106,627
Net Cash Used for Operating Activities	$	472,312

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The Academy was approved for operation under a five-year contract with the North Central Ohio Educational Service Center (the Sponsor) commencing July 1, 2013. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (Note 7).

The Academy operates under the direction of a five-member Board of Overseers. The Board of Overseers is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Overseers controls the Academy's one instructional/support facility which provide services to 205 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement 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 standing-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy'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. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial reports and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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 expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

In accordance with Ohio Revised Code Section 5705.391(A, the Academy is required to submit a five-year forecast to the Ohio Department of Education. In addition, the Academy is required to submit a financial plan detailing the estimated revenues and expenses to the Sponsor each fiscal year.

E. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds.

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital improvements have a 15 year useful life.

All reported capital assets except land are depreciated. Improvements are depreciated utilizing the straight-line method, over the remaining useful lives of the related capital assets.

The Academy had $269,416 in leasehold improvements at June 30, 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. The Academy has no deferred inflows of resources or debt at fiscal year-end.

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. 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 of reporting in the financial statements and accompanying notes. Actual results may differ from those estimates.

J. Pensions

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

K. Deferred Outflows of Resources

In addition to assets, the statements of the 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 (expenditure) until then. For the Academy, deferred outflows of resources are reported on the Statement of Net Position for pension. The deferred outflows of resources related to pension are explained in Note 12.

NOTE 3 - DEPOSITS

At June 30, 2015, the carrying amount of the Academy's deposits was $252,879 and the bank balance was $256,849. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, $6,849 of the Academy's bank balance was exposed to risk as $250,000 was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. A summary of intergovernmental receivables follows:

Funding Source	Amount
Federal Grants:	
Title I	$ 17,787
Title VI-B (IDEA-B)	14,756
Title IIA	294
Total Intergovernmental Receivable	$ 32,837

NOTE 5 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Academy contracted with Great American Insurance Company for general liability, property insurance, educational errors and omissions insurance.

Coverages are as follows:

Employers' Liability	$ 1,000,000
Automobile Liability	1,000,000
Employee Benefits	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in the past two years.

The Academy pays the the State Worker's Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 6 - PURCHASED SERVICES

During the fiscal year ended June 30, 2015, other purchased service expenses for services rendered by various vendors were as follows:

Purchased Services	Amount
Direct Expenses:	
Facilities services	$ 219,039
Professional services	147,153
Contracted services	27,159
Other	1,131
Total	$ 394,482

NOTE 7 - SPONSORSHIP SERVICES

The Academy is a party to a sponsorship services agreement with North Central Ohio Educational Service Center (NCOESC). The Agreement provides that NCOESC will perform the following services:

1. Monitor the Academy's compliance with all applicable laws;
2. Conduct comprehensive site visits to the Academy as necessary, but at least twice annually while classes are in session, and make written reports of all information obtained during such site visits, which shall be provided to the Ohio Department of Education upon request;
3. Monitor and evaluate the academic and fiscal performance and the organization and operation of the School on at least an annual basis;
4. Submit a written report of evaluation conducted to the parents of students enrolled and to the Department of Education by November 30th of each year;
5. Provide technical assistance to the Academy in complying with all laws;
6. Comply with the financial reporting requirements established by the Department of Education, and report the Academy's financial records in accordance with applicable accounting standards as prescribed by law; and
7. Notify the Department of Education within 24 hours of the Academy's failure to comply with an applicable law or contract requirement, as well as any other financial difficulties, under certain circumstances.

The Academy shall pay to the Sponsor a sponsorship fee equal to 3% of the total state foundation payment, based upon student enrollment, received by the Academy. In fiscal year 2015, the Academy paid approximately $47,089 for sponsorship services.

NOTE 8 - CONTRACTED FISCAL SERVICES

The Academy is a party to a fiscal services agreement with North Central Ohio Educational Service Center (NCOESC) and Charter School Management Corporation (CSMC). The Agreement may be terminated by either party, with our without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that NCOESC and CSMC will jointly perform the following services:

1. Fiscal Services
2. Personnel Services
3. EMIS/SOES Services
4. External/Internal Reporting Services

The contract with MAC Financial Services was terminated on July 31, 2014. After July 31, 2014, employees of NCOESC became employees of the Academy. The Academy also entered into a contract for outside Fiscal Services and EMIS/SOES Services with Mangen Financial Services.

NOTE 9 – CAPITAL ASSETS

For the year ended June 30, 2015, the Academy's capital assets consisted of the following:

Capital Assets Being Depreciated	Balance 7/1/2014	Additions	Deletions	Balance 6/30/2015
Leasehold Improvements	$ -	$ 272,140	$ -	$ 272,140
Total Capital Assets Being Depreciated	-	272,140	-	272,140
Less Accumulated Depreciation				
Leasehold Improvements	-	(2,724)	-	(2,724)
Total Accumulated Depreciation	-	(2,724)	-	(2,724)
Total Capital Assets Being Depreciated, Net	$ -	$ 269,416	$ -	$ 269,416

NOTE 10 - OPERATING LEASE

On May 7th, 2013 North Central Ohio Educational Service Center (NCOESC) entered into a lease agreement with Church on the Rise, Inc. for space located at 3550 Crocker Road, Westlake, Ohio. The term of the leased commenced on July 1, 2013 and continues through July 31, 2023.

Also on May 7th, 2013 the Academy entered into a sublease agreement with NCOESC under the same terms and conditions of the lease agreement noted above. For the fiscal year ended June 30, 2015, the Academy paid $15,834/month in rent. Payments during fiscal year 2015 totaled $172,165.

NOTE 11 – LOAN PAYABLE

During fiscal year 2015, the Academy received a $287,140 loan from AEALAS Inc for leasehold improvements. The loan was fully repaid in fiscal year 2016.

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015
Leasehold Improvements Loan	$ -	$ 287,140	$ 100,000	$ 187,140

NOTE 12 – DEFINED BENEFIT PENSION PLANS

a. Plan Description – State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB Plan, a Defined Contribution (DC Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

NOTE 12 – DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $100,553 for fiscal year 2015.

b. Deferred Outflows of Resources Related to Pensions

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS
Deferred Outflows of Resources	
Academy's contributions subsequent to the measurement date	$100,553
Total Deferred Outflows of Resources	$100,553

$100,553 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, 2016.

c. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

NOTE 12 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

d. 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.

NOTE 12 – DEFINED BENEFIT PENSION PLANS (continued)

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 pension and post-employment benefits payable on both the accrual and modified accrual bases of accounting.

NOTE 13 – POST EMPLOYMENT BENEFITS

a. State Teachers Retirement System of Ohio

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by using 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 authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015 and 2014 were $0 and $0 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 14 - CONTINGENCIES

a. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

NOTE 15 - CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

For fiscal year 2014, the school had no employees but in fiscal year 2015 all staff was employed by the school.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY

Required Supplementary Information
Schedule of School Contributions
State Teachers Retirement System of Ohio
Last Fiscal Year

	2015
Contractually Required Contribution	$ 100,553
Contributions in Relation to the Contractually Required Contribution	(100,553)
Contribution Deficiency (Excess)	$ -
School Covered-Employee Payroll	$ 718,236
Contributions as a Percentage of Covered-Employee Payroll	14.00%

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

Albert Einstein Academy for Letters, Arts and Sciences
Cuyahoga County
3550 Crocker Road
Westlake, Ohio 44145

To the Board of Overseers:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Albert Einstein Academy for Letters, Arts and Sciences, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 30, 2017, wherein we noted the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2017

Dave Yost • Auditor of State

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

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
NOVEMBER 28, 2017