THE SEAL OF THE AUDITOR OF STATE OF OHIO

OHIO AUDITOR OF STATE
KEITH FABER

SMART ACADEMY
CUYAHOGA COUNTY
JUNE 30, 2019

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OHIO AUDITOR OF STATE
KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

SMART Academy
Cuyahoga County
4351 East 131st Street
Garfield Heights, Ohio 44105

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the SMART Academy, Cuyahoga County, Ohio (the Academy), as of and for the ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SMART Academy, Cuyahoga County, Ohio, as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit 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 February 12, 2021, 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.

Keith Faber
Auditor of State
Columbus, Ohio

February 12, 2021

SMART ACADEMY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

The discussion and analysis of SMART Academy (Academy) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the financial performance of Academy as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of Academy.

Financial Highlights

Key financial highlights for 2019 include the following:

- Academy began start-up operations in March 2018 securing one loan for start-up expenditures and to provide working capital for the initial years of operations.

- Academy began educational operations in August 2018 enrolling students in grades kindergarten through 3.

- During the year, Academy educated 41 students with a staff consisting of five teachers, a secretary, and a superintendent.

- Academy secured a second loan to provide additional working capital for school operations during the first few years of operations.

- Academy successfully provided a superior education for their students and families and developed community relations in the school's surrounding neighborhood.

Using this Financial Report

This report consists of four parts: Management's Discussion and Analysis, the Financial Statements, Notes to the Financial Statements and Required Supplemental Information. The Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position looks at how well Academy has performed financially during fiscal year 2019. This statement includes all the assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting considers all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended. The following schedule provides a summary Statement of Net Position for fiscal year ended June 30, 2019 for Academy.

	2019	2018	Change
Assets			
Cash	$0	$29,391	($29,391)
Other Current Assets	25,213	0	25,213
Non-Current Assets	6,192	0	6,192
Deferred Outflow of Resources	38,549	0	38,549
Total Assets and Deferred Outflow of Resources	69,954	29,391	40,563
Liabilities			
Current Liabilities	242,349	1,860	240,489
Long-Term Liabilities	184,609	75,000	109,609
Total Liabilities	426,958	76,860	350,098
Net Position			
Unrestricted	(357,004)	(47,469)	(309,535)
Total Net Position	($357,004)	($47,469)	($309,535)

Academy began start-up operations in March 2018 and educational operations in August 2018. Management has not performed an analysis comparing financial activity for Fiscal Years 2018 and 2019 believing that such analyses will provide minimal information of value to report readers.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports operating and non-operating activities for the fiscal years ended June 30, 2019 and 2018. The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for Academy for fiscal years ended June 30, 2019 and 2018.

	2019	2018	Change
Revenues			
Foundation, Poverty Based Assistance & Facilities Revenues	$341,711	$0	$341,711
Casino Tax Distributions	873	0	873
Other Operating Revenues	3,958	1,859	2,099
Total Operating Revenues	346,542	1,859	344,683
Interest Income	3	1	2
Private Grants and Contribution	4,436	0	4,436
Federal and State Grants	60,449	0	60,449
Total Non-Operating Revenues	64,888	1	64,887
Total Revenues	411,430	1,860	409,570
Expenses			
Salaries	298,838	39,172	259,666
Fringe Benefits	78,201	2,556	75,645
Pension Expense	(38,549)	0	(38,549)
Purchased Services	237,510	1,345	236,165
Materials and Supplies	57,559	5,426	52,133
Capital Outlay	39,257	0	39,257
Other Expenses	48,149	830	47,319
Total Expenses	720,965	49,329	671,636
Changes in Net Position	(309,535)	(47,469)	(262,066)
Net Position: Beginning of the Year	(47,469)	0	(47,469)
Net Position: End of Year	($357,004)	($47,469)	($309,535)

Academy began start-up operations in March 2018 and educational operations in August 2018. Management has not performed an analysis comparing financial activity for Fiscal Years 2018 and 2019 believing that such analyses will provide minimal information of value to report readers.

Loans Payable

On March 15, 2018, Academy secured a $75,000 (seventy-five thousand dollar) loan for start-up operations. The loan is for a term of three years (36 months) with interest at 9.00% per annum and expires on September 1, 2021. Principal payments during fiscal year 2019 totaled $14,968 and interest expense totaled $5,612. As of June 30, 2019, the outstanding principal balance is $60,032. Interest payable totaling $900 has been recorded as a current liability as of June 30, 2019.

On July 23, 2018, Academy secured a $199,500 (one hundred ninety-nine thousand five hundred dollar) loan for start-up operations. The loan is for a term of five years (60 months) with interest at 5.875% per annum and expires on November 1, 2023. Principal payments during fiscal year 2019 totaled $14,484 and interest expense totaled $10,778. As of June 30, 2019, the outstanding principal balance is $185,016. Interest payable totaling $2,748 has been recorded as a current liability as of June 30, 2019.

Net Pension and Other Post-Employment Benefits (OPEB) Liabilities

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

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/asset*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal Academy'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, Academy 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. For STRS, the plan's fiduciary net OPEB position was sufficient to cover the plan's total OPEB liability resulting in a net OPEB asset for fiscal year 2019 that is allocated to each school based on its proportionate share. The retirement system is responsible for the administration of the pension and OPEB plans.

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. If 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, Academy's statements include, when applicable, 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/asset, respectively, not accounted for as deferred inflow/outflow.

Current Financial Issues

Academy opened in the fall of 2018 with a total of forty-one students, five teaching staff members and one administrative assistant staff. Expenses for the year totaled $720,965. During the start-up period and first operating year, Academy's enrollment was significantly lower than anticipated. As a result, revenues were insufficient to cover expenses resulting in an operating loss for the year. To provide sufficient cash-flow the Board of Directors authorized obtaining loans to be amortized over the next six years. At the same time expenses were reduced and carefully monitored. For the 2019/2020 school year a budget was adopted by the Board of Directors, reducing loan and payable balances, and providing Academy sufficient financial resources to operate effectively.

The Board of Directors, school management and school staff work diligently to ensure that Academy maintains the highest level of educational services and financial integrity possible. Our goal continues to be providing a strong educational product for our students and families and to fulfill the Mission of the school.

Contacting Academy's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for Academy and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, M.A., CPA, by mail at SMART Academy, 4351 E. 131st Street, Garfield Heights, Ohio 44105; by e-mail at treasurer@smartacademycle.com; or by calling 216.714.3801.

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SMART Academy
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2019

Current Assets:	
Due from Other Governments	$25,213
Total Current Assets	25,213
Non-Current Assets:	
Security Deposit	6,192
Total Non-Current Assets	6,192
Total Assets	31,405
Deferred Outflows of Resources:	
Pension	37,627
OPEB	922
Total Deferred Outflows of Resources	38,549
Total Assets and Deferred Outflows of Resources	69,954
Current Liabilities:	
Overdraft	9,228
Accounts Payable	124,534
Interest Payable	3,648
Accrued Wages	20,542
Accrued Benefits	5,197
Due to Other Governments	18,761
Loans Payable	60,439
Total Current Liabilities	242,349
Long Term Liabilities:	
Loans Payable	184,609
Total Long-Term Liabilities	184,609
Total Liabilities	426,958
Net Position:	
Unrestricted	(357,004)
Total Net Position	($357,004)

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

SMART Academy
Cuyahoga County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Operating Revenues:	
Foundation, Poverty Based Assistance & Facilities Revenues	$341,711
Casino Tax Distribution	873
Other Operating Revenues	3,958
Total Operating Revenues	346,542
Operating Expenses:	
Salaries	298,838
Fringe Benefits	78,201
Pension Expense	(38,549)
Purchased Services	237,510
Materials and Supplies	57,559
Capital Outlay	39,257
Other Operating Expenses	31,676
Total Operating Expenses	704,492
Operating Loss	(357,950)
Non-Operating Revenues & Expenses:	
Interest Income	3
Interest Expense	(16,473)
Contributions	4,436
Federal and State Grants	60,449
Total Non-Operating Revenues & Expenses	48,415
Change in Net Position	(309,535)
Net Position at Beginning of the Year	(47,469)
Net Position at End of Year	($357,004)

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

SMART Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Increase (Decrease) in Cash:	
Cash Flows Used for Operating Activities:	
Cash Received from State of Ohio	$342,584
Cash Payments to Suppliers for Goods and Services	(313,499)
Cash Payments to Employees for Services	(278,296)
Other Operating Revenues	3,958
Net Cash Used for Operating Activities	(245,253)
Cash Flows from Noncapital Financing Activities:	
Overdraft Proceeds	9,228
Contributions Received	4,436
Federal and State Grants Received	51,164
Net Cash Provided by Noncapital Financing Activities	64,828
Cash Flows from Capital and Related Financing Activities:	
Loan Proceeds	199,500
Principal Payments	(29,452)
Interest Payments	(12,825)
Increase in Security Deposits	(6,192)
Net Cash Provided by Capital and Related Financing Activities	151,031
Cash Flows from Investing Activities	
Interest	3
Net Cash Provided by Investing Activities	3
Net Decrease in Cash	(29,391)
Cash at Beginning of Year	29,391
Cash at End of Year	$0

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

SMART Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(Continued)

Reconciliation of Operating Loss to Net Cash Flows Used for Operating Activities:	
Operating Loss	($357,950)
Changes in Assets, Liabilities, Deferred Inflows of Resources and Deferred Outflows of Resources:	
(Increase) in Due from Other Governments	(15,927)
(Increase) in Deferred Outflows - Pension & Pension Benefits	(38,549)
Increase in Accounts Payable	124,534
Increase in Payroll Payable	20,542
Increase in Benefits Payable	5,197
Increase in Due to Other Governments	16,900
Total Adjustments	112,697
Net Cash Flows Used for Operating Activities	($245,253)

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

I. Description of the School and Reporting Entity

SMART Academy (Academy) is a nonprofit corporation established April 14, 2017 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific, and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On February 12, 2019, Academy received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of Academy. Academy, which is part of Ohio's education program, is independent of any school district. Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of Academy.

Academy was approved for operation under a contract between the Governing Authority of Academy and Buckeye Community Hope Foundation (BCHF) (the Sponsor) for a period of five-years commencing July 1, 2018. The contract with BCHF has been superseded with a new five-year agreement commencing July 1, 2019 and expiring June 30, 2024. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services.

Academy operates under a five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls the instructional facilities for Academy, which is staffed by 5 certificated full-time personnel and 1 support staff who provided services to 41 students.

II. Summary of Significant Accounting Policies

The financial statements of 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 Academy's accounting policies are described below.

1. Basis of Presentation

Enterprise Fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise Fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Academy prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which 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 the use is first permitted; matching requirements, in which Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not influence the financial statements of Academy.

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The implementation of GASB Statement No. 88 did not influence the financial statements of Academy.

4. Cash and Cash Equivalents

All monies received by Academy are deposited in demand deposit accounts and are considered cash and cash equivalents.

5. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

6. Due from Other Governments

Monies due Academy for the year ended June 30, 2019 are recorded as Due from Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

7. Intergovernmental Revenues

Academy currently participates in the State Foundation Program, the State Poverty Based Assistance Program, Community Schools Facilities Allocation and Casino Tax Distribution. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Academy also participates in Federal Entitlement Programs and the Federal Lunch Reimbursement Program. Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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 School on a reimbursement basis.

Amounts awarded under the above-named programs for the 2019 school year totaled $403,033.

8. Private Grants and Contributions

The Academy received grants and contributions from private sources to support various programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2019 school year totaled $4,436.

9. Compensated Absences

Teaching and office staff: Teaching and office staff are provided Paid Time Off (PTO) leave totaling seven (7) days per year, all of which is available the first day of each fiscal year. PTO is pro-rated for employees beginning employment after the first day of the school year. Unused PTO is carried over into the next school year and is capped at fifteen days in any given school year. Upon separation employee shall be compensated for all unused PTO only if they are non-renewed for the next school year. Employees who resign or are terminated forfeit all unused accumulated PTO.

Superintendent: Academy provides Superintendent compensated time off in the amount of three (3) personal days annually; one and one-quarter (1.25) days sick leave each month totaling fifteen (15) days annually; and thirty (30) vacation days annually.

Upon retirement from employment through the STRS, Superintendent may elect to be paid for a percentage of his balance of accrued but unused sick leave.

All vacation leave accrued and unused by Superintendent is accumulated and carried forward annually. Upon separation from employment, Superintendent will be compensated at the current per diem rate of pay for all accrued and unused vacation leave. Compensation for unused vacation leave is capped at the leave accrued during the three (3) years immediately preceding the date of separation.

During the school year, Academy expensed wages totaling $12,676 and benefits totaling $3,011 for compensated absences. Accrued wages and accrued benefits of $12,676 and $3,011 respectively were recorded during the year.

As of June 30, 2019, accrued wages and accrued benefits balances include $12,676 and $3,011 respectively for compensated absences as well as $7,866 and $2,186 respectively for fiscal year 2019 wages and benefits disbursed in July 2019.

10. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB asset/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.

11. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the financial statements. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and are paid in full from current financial resources, are reported as obligations. However, claims, judgments, and compensated absences that will be paid from available funds are reported as a liability in the financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

12. Use of 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 these estimates.

13. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of assets by Academy that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For Academy, deferred outflows of resources are reported on the statement of net position for pension and OPEB as explained in Notes VIII and IX.

Deferred inflows of resources represent an acquisition of assets by Academy that applies to a future period and will not be recognized until that time. For Academy, deferred inflows of resources are reported on the statement of net position for pension and OPEB as explained in Notes VIII and IX.

14. Net Position

Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

15. Operating Revenues and Expenses

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

III. Deposits

At fiscal year end June 30, 2019, the carrying amount of Academy's overdrafts totaled $(9,228) and its bank balance was $(421). Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2019, none of the bank balance was exposed to custodial risk as discussed below, and none was covered by the Federal Depository Insurance Corporation.

Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred and two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPC will collateralize utilizing the specific pledge method at one hundred and five percent.

IV. Loans Payable/Related Party Transaction

On March 15, 2018, Academy secured a $75,000 (seventy-five thousand dollar) loan with Bridget Williams, a private citizen and member of the Board of Directors, for start-up operations. The loan is for a term of three years with interest at 9.00% per annum. Per the loan agreement, interest and principal are paid in equal monthly installments starting October 1, 2018, with loan maturity occurring on September 1, 2021. Principal payments during fiscal year 2019 totaled $14,968 and interest expense totaled $5,612 As of June 30, 2019, the outstanding principal balance is $60,032. Interest payable totaling $900 has been recorded as a current liability as of June 30, 2019. Principal and interest due on the outstanding loan payable as of June 30, 2019 is as follows:

Year	Principal	Interest	Total
2020	$24,199	$4,421	$28,620
2021	26,469	2,151	28,620
2022	9,364	176	9,540
Total	$60,032	$6,748	$66,780

On July 23, 2018, Academy secured a $199,500 (one hundred ninety-nine thousand five hundred dollar) loan with IFF, an Illinois not for profit corporation, for start-up operations. The loan is for a term of five years with interest at 5.875% per annum. Per the loan agreement, interest on advances was paid through December 1, 2018. Monthly principal and interest payments in equal monthly installments began December 1, 2018, with loan maturity occurring on November 1, 2023. Principal payments during fiscal year 2019 totaled $14,484 and interest expense totaled $10,778. Future minimum lease payments are as follows:

Year	Principal	Interest	Total
2020	$36,240	$9,904	$46,144
2021	38,427	7,717	46,144
2022	40,746	5,398	46,144
2023	43,205	2,939	46,144
2024	26,398	519	26,917
Total	$185,016	$26,477	$211,493

V. Facility Lease

Academy leases its facility at 4341 East 131st Street, Garfield Heights, Ohio from the Most Rev. Nelson J. Perez, Bishop of the Catholic Diocese of Cleveland as Trustee for Holy Spirit Parish (landlord) under a five-year agreement beginning July 1, 2018 and expiring June 30, 2023. Annual rent charged to Academy is $74,303 during fiscal year 2019, increases to $78,000 for fiscal years 2020 and 2021, and increases to $81,900 for fiscal years 2022 and 2023. Academy is responsible for all operating and maintenance costs incurred at the facility. A $6,192 security deposit was paid to landlord in July 2018. During 2019 the total rent paid by Academy was $74,303. Future minimum lease payments are as follows:

Year	Lease Payments
2020	$78,000
2021	78,000
2022	81,900
2023	81,900
Total	$319,800

VI. Purchased Services

Purchased Services include the following:

Instruction	$12,932
Pupil Support Services	20,966
Staff Development & Support	2,842
Administrative	49,699
Occupancy Costs	112,586
Food Services	38,012
Student Activities	473
Total Purchased Services	$237,510

VII. Risk Management

1. Property and Liability Insurance

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. For fiscal year 2019, Academy contracted with Maxum Indemnity for property and liability insurance and Indian Harbor Insurance Company for educator liability and school leaders' errors and omissions insurance.

General property and liability insurance are covered at $1,000,000 single occurrence limit and $2,000,000 aggregated. Other coverage includes Crime, Educators Liability, School Leaders Errors & Omissions, Cyber Liability and Business Interruption. There have been no claims to date against these policies.

2. Workers' Compensation

Academy makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. There have been no claims filed by Academy employees with the Ohio Workers' Compensation System between July 1, 2018 and June 30, 2019.

3. Employee Medical, Dental and Vision Benefits

Academy provides medical, dental and vision insurance benefits to all full-time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by Academy for the fiscal year is $17,943.

VIII. Defined Benefit Pension Plans

1. Net Pension Liability

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 because of employment exchanges that already have occurred.

The net pension liability represents 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 Academy's obligation for this liability to annually required payments. Academy cannot control benefit terms or the manner in which pensions are financed; however, 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.

On June 30, 2019, there was no net pension liability to report for Academy. This is due to 2019 being its first full year of operations and the pension systems recalculating of the liability based on historical data, which was not available for the Academy.

2. Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

Academy's contractually required contribution to SERS was $5,234 for fiscal year 2019.

3. 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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through 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. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying one percent of the member’s final average salary by the member’s years of service credit. 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 DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

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, 2019, plan members were required to contribute 14 percent of their annual covered salary. Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

Academy's contractually required contribution to STRS was $32,393 for fiscal year 2019.

4. Deferred Outflows of Resources Related to Pensions

Employer contributions to the pension plan subsequent to the measurement date are required to be reported as deferred outflows of resources. On June 30, 2019, Academy reported deferred outflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
School Contributions Subsequent to the Measurement Date	$ 5,234	$ 32,393	$ 37,627
Total Deferred Outflows of Resources	$ 5,234	$ 32,393	$ 37,627

$37,627 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 that will be reported in the fiscal year ending June 30, 2020.

5. 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 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.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, 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 investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

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

Discount Rate 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 that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

6. Actuarial Assumptions – STRS

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

Post-retirement mortality rates are based on 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; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for 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:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
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	100.00 %	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten-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 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, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

IX. Defined Benefit OPEB Plans

1. Net OPEB Asset/Liability

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 asset/liability represents 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 asset/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 Academy's obligation for this liability to annually required payments. Academy cannot control benefit terms or the manner in which OPEB are financed; however, Academy does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the asset/liability is solely that 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 asset/liability. Resulting adjustments to the net OPEB asset/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.

On June 30, 2019, there was no net OPEB asset/liability to report for Academy. This is due to 2019 being its first full year of operations and the pension systems recalculating of the liability based on historical data, which was not available for the Academy.

2. Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - 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 is 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 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 2019, 0.5 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 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 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 2019, Academy's surcharge obligation was $728.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. Academy's contractually required contribution to SERS was $922 for fiscal year 2019. Of this amount $728 is reported as an intergovernmental payable.

3. **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 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, 2019, STRS did not allocate any employer contributions to post-employment health care.

4. **Deferred Outflows of Resources Related to OPEB**

On June 30, 2019, Academy reported deferred outflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
School Contributions Subsequent to the Measurement Date	$ 922	$ 0	$ 922
Total Deferred Outflows of Resources	$ 922	$ 0	$ 922

$922 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 fiscal year ending June 30, 2020.

5. Actuarial Assumptions – SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increase with inflation	3.50 percent to 18.20 percent.
Investment Rate of Return	7.50 percent net of investment expense, including inflation.
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 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 long-term expected rate of return on plan 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 long- 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.

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:

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

Discount Rate The discount rate used to measure the total OPEB liability on June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 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 contribution rate of 2.00 percent of projected covered 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, 2026. 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, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (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.

6. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation is 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	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

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, 2018; valuation is 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:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
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	100.00 %	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten-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 actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

X. Contingencies

1. Grants

Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Academy on June 30, 2019.

2. 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 an 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 Academy for fiscal year 2019.

As of the date of this report, ODE adjustments for fiscal year 2019 have been finalized. FTE adjustments on the fiscal year 2019 financial statements for Academy were immaterial. In addition, Academy's contract with their Sponsor, Buckeye Community Hope Foundation requires that a portion of their fees be calculated as a percentage of Foundation revenues received by Academy from the State (See Note XI). As discussed above, FTE adjustments for fiscal year 2019 have been finalized. The impact on the fiscal year 2019 financial statements for Academy, related to fee calculation changes necessary with these contracts, is immaterial.

XI. Sponsorship Agreement

Academy entered into an agreement Buckeye Community Hope Foundation, to provide sponsorship and oversight services as required by law. The agreement effective July 1, 2018 was superseded with a new five-year agreement commencing July 1, 2019 and continues until June 30, 2024. Sponsorship fees were calculated as 3.00% of the Fiscal Year 2019 Foundation payments received by Academy, from the State of Ohio. The total amount due from Academy for fiscal year 2019 was $10,013 of which $3,405 was outstanding on June 30, 2019 and is included with accounts payable.

XII. Subsequent Events

During July 2019, Academy obtained a loan of $12,000 which had been approved by the Board of Directors at their June 25, 2019 meeting. The loan, which is from a related party, is for a period of 18 months and carries interest at a rate of 0.5%.

During August 2019 Academy obtained an amendment to the loan agreement with IFF. This first amendment with IFF provided for the deferral of monthly payments between May 1, 2019 and October 1, 2019. The principal balance has been adjusted to $190,233 due to accrued interest during the deferral period totaling $5,218. Monthly payments have been increased to keep the loan expiration date on November 1, 2023.

Academy entered into a note payable agreement with Huntington National Bank on May 4, 2020 under terms of the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) The PPP allows certain companies to apply for aid through forgivable loans. The unsecured note has a principal amount of $77,750 maturing on May 4, 2022 with a stated interest rate of 1.00% simple interest. Academy believes that it has fulfilled all requirements for 100% forgiveness and will file a forgiveness application during fiscal year 2021.

SMART ACADEMY
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of Academy's Contributions - Pension
Current Fiscal Year

		2019
School Employees Retirement System (SERS)		
Contractually Required Contribution	$	5,234
Contributions in Relation to the Contractually Required Contribution		(5,234)
Contribution Deficiency (Excess)	$	0
School's Covered Payroll	$	38,770
Pension Contributions as a Percentage of Covered Payroll		13.50%
State Teachers Retirement System (STRS)		
Contractually Required Contribution	$	32,393
Contributions in Relation to the Contractually Required Contribution		(32,393)
Contribution Deficiency (Excess)	$	0
School's Covered Payroll	$	231,379
Pension Contributions as a Percentage of Covered Payroll		14.00%

See Accompanying Notes to the Required Supplemental Information

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SMART ACADEMY
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of Academy's Contributions - OPEB
Current Fiscal Year

		2019
School Employees Retirement System (SERS)		
Contractually Required Contribution (1)	$	922
Contributions in Relation to the Contractually Required Contribution		(922)
Contribution Deficiency (Excess)	$	0
School's Covered Payroll	$	38,770
OPEB Contributions as a Percentage of Covered Payroll (1)		2.38%
State Teachers Retirement System (STRS)		
Contractually Required Contribution	$	0
Contributions in Relation to the Contractually Required Contribution		0
Contribution Deficiency (Excess)	$	0
School's Covered Payroll	$	231,379
OPEB Contributions as a Percentage of Covered Payroll		0.00%

(1) Includes surcharge

See Accompanying Notes to the Required Supplemental Information

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Note 1 - Net Pension Liability

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare
- Fiscal year 2018: 7.50 percent initially, decreasing to 5.00 percent
- Fiscal year 2019: 7.25 percent initially, decreasing to 4.75 percent

Medicare
- Fiscal year 2018: 5.50 percent initially, decreasing to 5.00 percent
- Fiscal year 2019: 5.375 percent initially, decreasing to 4.75 percent

The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

Changes in Assumptions – STRS

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of 5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2019, the blended discount rate was increased from 3.26 percent to 4.13 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.

Changes in Benefit Terms – STRS

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2019, 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. This was subsequently extended, see above paragraph.

OHIO AUDITOR OF STATE
KEITH FABER

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

SMART Academy
Cuyahoga County
4351 East 131st Street
Garfield Heights, Ohio 44105

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the SMART Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 12, 2021.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing to 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2019-001 to be a significant deficiency.

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 financial statements. 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*.

Academy's Response to Finding

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

Purpose of this Report

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

Keith Faber
Auditor of State
Columbus, Ohio

February 12, 2021

SCHEDULE OF FINDINGS
JUNE 30, 2019

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

Significant Deficiency - Cash Management

FINDING NUMBER 2019-001

SIGNIFICANT DEFICIENCY

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Board and Superintendent are responsible for reviewing the reconciliations and related support.

Monthly bank to book reconciliations were not prepared or reviewed each month of 2019. Failure to reconcile monthly increases the possibility that the Academy will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

Lack of a proper reconciliation of bank to accounting system cash totals led to the following errors:

- Twelve Overdraft fees totaling $410 were charged to the Academy
- Two Checks totaling $5,214 cleared the Academy's bank statements but were not recorded to the Academy's accounting system until the next fiscal year.
- Two Checks were written out of sequence

The Treasurer should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Superintendent and/or the Board should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

Official's Response:

We agree with this finding as presented.

During the period covered in this audit report the Academy received Treasurer services from two different individuals. Both Treasurers do not live in the area where the school is located and were providing their services via online methods.

Effective July 1, 2019 Academy contracted with a local Treasurer for financial services under a two-year agreement. All bank reconciliations have been performed timely each month since the beginning of July 2019. The Treasurer routinely reviews bank account activity each month through online banking access.

Monthly finance reports are prepared and provided to both the board members and the Academy's sponsor. These finance reports include monthly copies of the Bank Statement, Bank Reconciliation reports generated through QuickBooks and a Cash Register generated through QuickBooks. Any issues or concerns are communicated through these reports.

OHIO AUDITOR OF STATE
KEITH FABER

SMART ACADEMY

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 3/4/2021

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