ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of 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 Albert Einstein Academy for Letters, Arts and Sciences, Cuyahoga County, Ohio as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

May 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the basic financial statements and 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 $422,865 at June 30, 2017
- The Academy's total assets were $1,273,644 and total liabilities were $2,749,932 at end of the fiscal year.
- The Academy had deferred outflows of resources of $1,899,153 and deferred inflows of resources of $0.
- The Academy had operating revenues of $1,983,537, operating expenses of $2,124,472, and non-operating revenues of $97,825 for the fiscal year ended June 30, 2017. Total change in net position for the year was a decrease of $43,110.

During a prior year, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School'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 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 deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

The Statement of Net Position 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.

Table 1 provides a summary of the Academy's Net Position for fiscal year 2017 and fiscal year 2016.

Table 1
Statement of Net Position

	2017	2016
Assets		
Current Assets	$ 1,031,025	$ 613,498
Capital Assets, Net	242,619	251,273
Total Assets	1,273,644	864,771
Deferred Outflow of Resources		
Pension System	1,899,153	1,530,967
Liabilities		
Current Liabilities	187,864	219,839
Long Term Liabilities	2,562,068	1,595,198
Total Liabilities	2,749,932	1,815,037
Deferred Inflow of Resources		
Pension System	-	114,726
Net Position		
Investment in Capital Assets	242,619	251,273
Unrestricted	180,246	214,702
Total Net Position	$ 422,865	$ 465,975

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2017, the Academy's net position was $422,865.

Current assets include the Academy's cash and cash equivalents, prepaid insurance, and accounts receivable. Current liabilities include accounts payable, accrued wages and benefits, pension obligation payable, and state grant payable.

The Academy had $242,619 invested in capital assets at the end of fiscal year 2017.

Table 2 shows the changes in net position for fiscal year 2017 compared to fiscal year 2016, as well as a listing of revenues and expenses.

Table 2
Change in Net Position

	2017	2016
Operating Revenue		
Foundation Payments	$ 1,953,461	$ 1,881,082
Casino Revenue	11,401	10,917
Miscellaneous Local Revenue	18,675	21,005
Total Operating Revenue	1,983,537	1,907,734
Operating Expenses		
Salaries	938,036	836,514
Benefits	673,642	410,742
Purchased Services	428,185	464,863
Materials and Supplies	38,354	30,363
Depreciation	18,142	18,143
Other	28,113	23,429
Total expenses	2,124,472	1,784,054
Operating Income (Loss)	(140,935)	123,680
Non-Operating Revenues		
Federal and State Grants	97,269	72,469
Other Non-Operating Revenue	556	5,331
Total revenues	97,825	77,800
Change in Net Position	$ (43,110)	$ 201,480
Net Position, Beginning of the Year	465,975	264,495
Net Position, End of the Year	$ 422,865	$ 465,975

The increase in revenues received in 2017 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 2017. The decrease in purchased services is primarily due to a decrease in purchased facilities services in fiscal year 2017.

Capital Assets

At the end of fiscal year 2017, the Academy had $242,619 in leasehold improvements. Table 3 shows the balance for fiscal year 2017 compared to 2016.

Table 3
Capital Assets (Net of Depreciation)

	2017	2016
Leasehold Improvements	$ 242,619	$ 251,273

For more information on capital assets, see note 7 in the notes to the financial statements.

Debt

At the end of fiscal year 2017, the Academy had no debt.

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 fifth 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 Academy'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, 2017

ASSETS		
Current Assets		
Cash & Cash Equivalents	$	1,030,112
Prepaid Insurance		852
Accounts Receivable		61
Total Current Assets		1,031,025
Noncurrent Assets		
Leashold Improvements		242,619
Total assets		1,273,644
DEFERRED OUTFLOWS OF RESOURCES		
Pension System		1,899,153
LIABILITIES		
Current Liabilities		
Accounts Payable		45,016
Pension Obligation Payable		4,524
State Grant Payable		2,520
Accrued Wages and Benefits		135,804
Total Current Liabilities		187,864
Long Term Liabilities		
Net Pension Liability		2,562,068
Total Long Term Liabilities		2,562,068
Total Liabilities		2,749,932
NET POSITION		
Invested in Capital Assets		242,619
Unrestricted Net Position		180,246
Total Net Position	$	422,865

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, 2017

OPERATING REVENUES		
Foundation Payments	$	1,953,461
Miscellaneous Local Revenue		18,675
Casino Revenue		11,401
Total Operating Revenues		1,983,537
OPERATING EXPENSES		
Salaries and Wages		938,036
Benefits		673,642
Purchased Services		428,185
Supplies and Materials		38,354
Depreciation		18,143
Other Expenses		28,112
Total Operating Expenses		2,124,472
Operating Loss		(140,935)
NON-OPERATING REVENUES		
Federal Grants		97,269
Interest Income		556
Total Non-Operating Revenues		97,825
Change in Net Position		(43,110)
Net Position, July 1, 2016		465,975
Net Position, June 30, 2017	$	422,865

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from State Aid	$	1,968,162
Cash Payments to Suppliers for Goods and Services		(546,325)
Cash Received from Other Operating Sources		18,675
Cash Payments to Employees for Salaries and Benefits		(1,102,122)
Net Cash Used for Operating Activities		338,390
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Cash Payments for Capital Acquisitions		(9,488)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received from Grant Programs		97,269
Net Cash Received from Noncapital Financing Activities		97,269
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest		556
Net Cash Received from Investing Activities		556
Net Decrease in Cash and Cash Equivalents		426,727
Cash and Cash Equivalents at Beginning of Year		603,385
Cash and Cash Equivalents at End of Year	$	1,030,112
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating Loss	$	(140,935)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Depreciation		18,143
Changes in Assets, Liabilities, and Deferred Outflows/Inflows of Resources:		
Prepaid Insurance		(852)
State Grant Receivable		2,215
Intergovernmental Receivable		2,184
Accounts Receivable		1,422
Pension Obligation Receivable		4,231
Pension Deferred Outflows		(368,186)
Accounts Payable		(22,176)
Pension Deferred Inflows		(114,726)
State Grant Payable		2,521
Net Pension Liability		966,870
Pension Obligation Payable		4,523
Accrued Wages and Benefits		(16,844)
Total Adjustments		479,325
Net Cash Used for Operating Activities	$	338,390

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 6).

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 223 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 positon, 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. All highly liquid investments, with purchased maturities of three months or less are considered to be cash equivalents.

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 $5,000. 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.

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. Useful lives for assets range from 5 to 40 years, and is determined based on actual experience or engineering evidence and practice.

The Academy had $242,619 in leasehold improvements at June 30, 2017.

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 and Deferred Inflows 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 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applied to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources are reported for pension. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 9)

NOTE 3 - DEPOSITS

At June 30, 2017, the carrying amount of the Academy's deposits was $1,030,112 and the bank balance was $1,031,012. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, $531,012 of the Academy's bank balance was exposed to custodial risk.

NOTE 4 - 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 2017, 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 four years. The Academy pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 5 - PURCHASED SERVICES

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

Purchased Services	**Amount**	
Direct Expenses:		
Facilities services	$	217,661
Professional services		154,641
Contracted services		38,612
Other		17,271
Total	$	428,185

NOTE 6 - 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 2017, the Academy paid approximately $57,409 for sponsorship services.

NOTE 7 – CAPITAL ASSETS

For the year ended June 30, 2017, the Academy's capital assets consisted of the following:

Capital Assets Being Depreciated	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
Leasehold Improvements	$ 272,140	$ 9,489	$ -	$ 281,629
Total Capital Assets Being Depreciated	272,140	9,489	-	281,629
Less Accumulated Depreciation				
Leasehold Improvements	(20,867)	(18,143)	-	(39,010)
Total Accumulated Depreciation	(20,867)	(18,143)	-	(39,010)
Total Capital Assets Being Depreciated, Net	$ 251,273	$ (8,654)	$ -	$ 242,619

NOTE 8 - 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, 2017, the Academy paid $14,069/month in rent. Payments during fiscal year 2017 totaled $163,329.

NOTE 9 – DEFINED BENEFIT PENSION PLANS

a. Net Pension Liability

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

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

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

b. Plan Description – State Teachers Retirement System (STRS) (continued)

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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

b. Plan Description – State Teachers Retirement System (STRS) (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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $127,644 for fiscal year 2017.

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

The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	STRS
Proportionate Share of the Net Pension Liability	$2,562,068
Proportion of the Net Pension Liability	0.00765413
Pension Expense	$611,602

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

b. Plan Description – State Teachers Retirement System (STRS) (continued)

	STRS
Deferred Outflows of Resources	
Differences between expected and actual experience	$103,519
Net difference between projected and actual earnings on pension plan investments	212,721
Changes of assumptions	
School Contributions and Proportionate Share of Contributions and proportionate share of contributions	1,455,269
Academy's contributions subsequent to the measurement date	127,644
Total Deferred Outflows of Resources	$1,899,153
Deferred Inflows of Resources	
Difference between School District contributions and proportionate share of contributions	0
Total Deferred Inflows of Resources	$0

$127,644 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS
Fiscal Year Ending June 30:	
2018	$ 496,396
2019	496,397
2020	578,023
2021	200,693
	$ 1,771,509

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

d. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

NOTE 9 – DEFINED BENEFIT PENSION PLANS (continued)

d. Actuarial Assumptions – STRS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$3,404,780	$2,562,068	$1,851,191

NOTE 10 – POST EMPLOYMENT BENEFITS

a. State Teachers Retirement System of Ohio

Plan Description – The School 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 visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio 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 years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the Academy did not contribute to health care in the last three fiscal years.

NOTE 11 - CONTINGENCIES

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.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2017	2016
State Teachers Retirement System (STRS)		
School's Proportion of the Net Pension Liability	0.00765413%	0.00577195%
School's Proportionate Share of the Net Pension Liability	$ 2,562,068	$ 1,595,198
School's Covered-Employee Payroll	$ 986,579	$ 718,236
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	259.69%	222.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%

(1) Information prior to 2014 is not available.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
CUYAHOGA COUNTY

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

	2017	2016	2015
State Teachers Retirement System (STRS)			
Contractually Required Contribution	$ 127,644	$ 138,121	$ 100,553
Contributions in Relation to the Contractually Required Contribution	(127,644)	(138,121)	(100,553)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School Covered-Employee Payroll	$ 911,743	$ 986,579	$ 718,236
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%

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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*

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, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 22, 2018.

Internal Control Over Financial Reporting

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

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

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

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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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

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 audit the Academy's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

May 22, 2018

SCHEDULE OF FINDINGS
JUNE 30, 2017

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

FINDING NUMBER 2017-001

Noncompliance Finding

Finding for Recovery – Resolved Under Audit - Payroll Overpayment

At the December 16, 2016 meeting, the Board of Directors approved the hiring of Autumn Hines at a salary of $40,000, which included $2,000 for a stipend in lieu of receiving health insurance. Ms. Hines was to start January 4, 2017 and her $40,000 salary would be prorated between that date and the end of the contract, August 31, 2017.

Ms. Hines was receiving a prorated salary of $1,333 per pay period during the contract period; however, she erroneously received an additional $83 each pay period for the healthcare stipend that was already factored into her Board approved salary. For the contract period, Ms. Hines received $1,333 in excess compensation related to the healthcare stipend.

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for money illegally expended is hereby issued in the amount of $1,333 in favor of Albert Einstein Academy for Letters, Arts and Sciences.

At the April 10, 2018 Board of Directors meeting, the Board authorized the additional compensation of $1,333, retroactively for the fiscal year 2017 contract of Autumn Hines. Therefore, we consider this finding resolved under audit.

The School should ensure salary payments are made in accordance with the contracts or compensation schedule approved by the Board of Directors in the future.

Officials' Response: Communication to treasurer for stipend did not comport to the school's records. As mentioned in the finding, this is considered resolved due to subsequent Board action. We have also established with the Superintendent a different methodology for presenting and recording compensation approvals by the Board.

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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
JULY 10, 2018

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