



Rea & associates *a brighter way*

Stonebrook Montessori Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2018

OHIO AUDITOR OF STATE KEITH FABER



Board of Directors
Stonebrook Montessori
219 East Maple St, Suite 202
North Canton, OH 44720

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

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 4, 2019

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**STONEBROOK MONTESSORI
CUYAHOGA COUNTY, OHIO**

TABLE OF CONTENTS

| <u>TITLE</u> | <u>PAGE</u> |
|---|--------------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements: | |
| Statement of Net Position | 12 |
| Statement of Revenues, Expenses and Changes in Net Position | 13 |
| Statement of Cash Flows | 14 |
| Notes to the Basic Financial Statements | 16 |
| Required Supplementary Information: | |
| Schedule of the School's Proportionate Share of the Net Pension Liability | 43 |
| Schedule of School Contributions - Pension | 45 |
| Schedule of the School's Proportionate Share of the Net OPEB Liability | 47 |
| Schedule of School Contributions - OPEB | 49 |
| Notes to Required Supplementary Information | 51 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 53 |

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December 26, 2018

To the Board of Trustees
Stonebrook Montessori
975 East Boulevard
Cleveland, Ohio 44108

Independent Auditor's Report

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As described in Note 13 to the financial statements, the School restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and financial reporting for Postemployment Benefits other than Pensions." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of the School's Contributions-Pension, Schedule of the School's Proportionate Share of the Net OPEB Liability, and the Schedule of the School's Contributions - OPEB* on pages 5-11, 43-44, 45-46, 47-48, and 49-50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

The Management's Discussion and Analysis (the MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the School for the 2017-18 school year are as follows:

- Total Assets increased by \$28,284.
- Total Liabilities decreased by \$119,697.
- Total Net Position increased by \$171,535.
- Total Operating and Non-Operating revenues were \$2,054,085. Total Operating expenses were \$1,882,550.
- The School implemented GASB Statement No. 75 related to OPEBs and restated net position at June 30, 2017. See note 13 for details on the restatement.

USING THIS ANNUAL REPORT

This report consists of three parts: the basic financial statements, notes to those statements, and Required Supplemental Information. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2018. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in that net position. This change in net position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

USING THIS ANNUAL REPORT (Continued)

Statement of Net Position – The Statement of Net Position answers the question of how the School did financially during 2018. This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource 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.

Table 1 provides a summary of the School’s Net Position for fiscal year 2018 and 2017.

**Table 1
Statement of Net Position**

| | 2018 | Restated 2017 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | \$ 309,865 | \$ 267,527 |
| Capital Assets, Net | 56,214 | 70,268 |
| Total Assets | <u>366,079</u> | <u>337,795</u> |
| Deferred Outflows of Resources | <u>1,876,071</u> | <u>1,744,897</u> |
| Liabilities | | |
| Current Liabilities | 56,822 | 91,092 |
| NonCurrent Liabilities | 2,511,001 | 2,596,428 |
| Total Liabilities | <u>2,567,823</u> | <u>2,687,520</u> |
| Deferred Inflows of Resources | <u>107,621</u> | <u>-</u> |
| Net Position | | |
| Investment in Capital Assets | 56,214 | 70,268 |
| Unrestricted | (489,508) | (675,096) |
| Total Net Position | <u>\$ (433,294)</u> | <u>\$ (604,828)</u> |

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

USING THIS ANNUAL REPORT (Continued)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

USING THIS ANNUAL REPORT (Continued)

other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$81,326) to (\$604,828).

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STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

USING THIS ANNUAL REPORT (Continued)

Statement of Revenues, Expenses and Change in Net Position - Table 2 shows the changes in net position for fiscal year, 2018, and 2017 as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2
Change in Net Position

| | 2018 | 2017 |
|--------------------------------|-------------------|---------------------|
| Operating Revenues | | |
| State Aid | \$ 990,732 | \$ 804,094 |
| Charges for Services | 89,430 | 82,011 |
| Miscellaneous | 20,137 | 42,683 |
| Total Operating Revenues | <u>1,100,299</u> | <u>928,788</u> |
| Operating Expenses | | |
| Salaries | 1,174,681 | 983,054 |
| Fringe Benefits | 256,107 | 232,565 |
| Fringe Benefits - Pension/OPEB | (108,980) | 432,113 |
| Purchased Services | 434,768 | 329,240 |
| Materials and Supplies | 61,119 | 31,743 |
| Depreciation | 14,054 | - |
| Other | 50,801 | 8,142 |
| Total Operating Expenses | <u>1,882,550</u> | <u>2,016,857</u> |
| Operating (Loss) | (782,251) | (1,088,069) |
| Non-Operating Revenues | | |
| Federal Grants | 175,366 | 112,304 |
| Contributions and Donations | 600,000 | 588,905 |
| Intergovernmental Revenue | 73,400 | 41,570 |
| Other Grants | 105,020 | 99,266 |
| Total Non-Operating Revenues | <u>953,786</u> | <u>842,045</u> |
| Change in Net Position | <u>\$ 171,535</u> | <u>\$ (246,024)</u> |

Revenue and expenses increased over the prior year due to fiscal year 2018 being the School's third year in operation. These increases were directly related to the School having to service more FTEs than in the prior year. The change in pension/OPEB expense is further explained in notes 8 and 9.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

USING THIS ANNUAL REPORT (Continued)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$9,913 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$3,063. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

| | |
|--|-------------------|
| Total 2018 program expenses under GASB 75 | \$ 1,882,550 |
| OPEB expense under GASB 75 | (3,063) |
| 2018 contractually required contribution | <u>13,447</u> |
| Adjusted 2018 program expenses | 1,892,934 |
| Total 2017 program expenses under GASB 45 | <u>2,016,857</u> |
| Decrease in program expenses not related to OPEB | <u>\$ 123,923</u> |

CAPITAL ASSETS

At fiscal year end, the School's net capital asset balance was \$56,214. This balance includes current year depreciation of \$14,054. For more information on capital assets, see Note 5 of the Basic Financial Statements.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CURRENT FINANCIAL ISSUES

The School is a community School and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In 2018, the State raised the base per pupil funding to \$6,010, which is up from \$6,000 in the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be \$200 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2018 was 120 and 96 in 2017.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact the School's Fiscal Officer, C. David Massa, CPA, of Massa Financial Solutions, LLC, 975 East Boulevard, Cleveland Ohio 44108.

STONBEROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

Statement of Net Position

At June 30, 2018

Assets:

Current Assets:

| | | |
|------------------------------|----|----------------|
| Cash and Cash Equivalents | \$ | 267,866 |
| Intergovernmental Receivable | | 8,783 |
| Accounts Receivable | | 33,216 |
| Total Current Assets | | <u>309,865</u> |

Noncurrent Assets:

| | | |
|--|--|---------------|
| Capital Assets, Net Accumulated Depreciation | | <u>56,214</u> |
|--|--|---------------|

Total Assets

366,079

Deferred Outflows of Resources:

| | | |
|---|--|------------------|
| Pension | | 1,749,158 |
| OPEB | | <u>126,913</u> |
| Total Deferred Outflows of Resources | | <u>1,876,071</u> |

Liabilities:

Current Liabilities:

| | | |
|----------------------------------|--|---------------|
| Accounts Payable, Trade | | 34,818 |
| Withholdings Payable | | 18,416 |
| Accrued Expenses | | <u>3,588</u> |
| Total Current Liabilities | | <u>56,822</u> |

Noncurrent Liabilities:

| | | |
|-------------------------------------|--|------------------|
| Net Pension Liability | | 1,931,838 |
| Net OPEB Liability | | <u>579,163</u> |
| Total Noncurrent Liabilities | | <u>2,511,001</u> |

Total Liabilities

2,567,823

Deferred Inflows of Resources:

| | | |
|--|--|----------------|
| Pension | | 46,753 |
| OPEB | | <u>60,868</u> |
| Total Deferred Inflows of Resources | | <u>107,621</u> |

Net Position:

| | | |
|------------------------------|--|---------------------|
| Investment in Capital Assets | | 56,214 |
| Unrestricted Net Position | | <u>(489,508)</u> |
| Total Net Position | | <u>\$ (433,294)</u> |

See Accompanying Notes to the Basic Financial Statements

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**Statement of Revenues,
Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018**

| | |
|---|----------------------------|
| Operating Revenues: | |
| State Aid | \$ 990,732 |
| Charge for Services | 89,430 |
| Miscellaneous | 20,137 |
| Total Operating Revenues | <u>1,100,299</u> |
| Operating Expenses: | |
| Salaries | 1,174,681 |
| Fringe Benefits | 256,107 |
| Fringe Benefits - Pension | (98,596) |
| Fringe Benefits - OPEB | (10,384) |
| Purchased Services | 434,768 |
| Depreciation | 14,054 |
| Supplies | 61,119 |
| Other Operating Expenses | 50,801 |
| Total Operating Expenses | <u>1,882,550</u> |
| Operating Loss | (782,251) |
| Non-Operating Revenues: | |
| Federal Grants | 175,365 |
| State Grants | 105,020 |
| Intergovernmental Revenue | 73,400 |
| Contributions and Donations | 600,000 |
| Net Nonoperating Revenues | <u>953,785</u> |
| Change in Net Position | 171,534 |
| Net Position Beginning of Year, Restated | <u>(604,828)</u> |
| Net Position End of Year | <u><u>\$ (433,294)</u></u> |

See Accompanying Notes to the Basic Financial Statements

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| State Aid Receipts | \$ 980,104 |
| Other Operating Receipts | 76,351 |
| Cash Payments to Suppliers for Goods and Services | (567,286) |
| Cash Payments to Employees for Services | (1,174,681) |
| Cash Payments for Employee Benefits | <u>(247,746)</u> |
| Net Cash Used By Operating Activities | <u>(933,258)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|------------------|
| Intergovernmental Receipts | 73,400 |
| Federal and State Grant Receipts | 363,647 |
| Contributions and Donations | <u>600,000</u> |
| Net Cash Provided By Noncapital Financing Activities | <u>1,037,047</u> |

Net Increase in Cash and Cash Equivalents 103,789

| | |
|---|-------------------|
| Cash and Cash Equivalents - Beginning of the Year | <u>164,077</u> |
| Cash and Cash Equivalents - End of the Year | <u>\$ 267,866</u> |

(Continued)

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
(Continued)

| | |
|---|----------------------------|
| Reconciliation of Operating Loss to Net Cash Used For Operating Activities | |
| Operating Loss | \$ (782,251) |
| Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities: | |
| Depreciation | 14,054 |
| Changes in Assets, Liabilities, and Deferred Inflows and Outflows: | |
| (Increase)/Decrease in Receivables | (27,407) |
| (Increase)/ Decrease in Deferred Outflows | (131,174) |
| Increase/ (Decrease) in Deferred Inflows | 107,621 |
| Increase/ (Decrease) in Net Pension/OPEB Liability | (85,427) |
| (Increase)/Decrease in Other Assets | 5,596 |
| Increase/(Decrease) in Accounts Payable, Trade | (45,258) |
| Increase/(Decrease) in Accrued Expenses | 2,625 |
| Increase/(Decrease) in Withholding Payable | 8,363 |
| Net Cash Used For Operating Activities | <u><u>\$ (933,258)</u></u> |

See Accompanying Notes to the Basic Financial Statements

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - DESCRIPTION OF THE ENTITY

Stonebrook Montessori, (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to improve the lives of its students by providing authentic learning experiences in a collaborative, nurturing environment that will build a foundation for student's success in school, at future work and in life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, 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 School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Cleveland Metropolitan School District, ("CMSD") (the Sponsor) for a five-year period commencing on July 1, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Basis of Presentation - The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes in net position, net position and cash flows.

The Government Accounting Standards Board identifies the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting - The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets, all deferred outflows of resources, all liabilities, and all deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total Net Position. The accrual basis of accounting is used for reporting purposes.

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

Cash and Cash Equivalents - Cash received by the School is reflected as “Cash and Cash Equivalents” on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2018.

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.

Capital Assets and Depreciation - Capital assets are capitalized at cost. Donated capital assets are recorded at their acquisition values as of the date received. The costs of additions are capitalized and expenses for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net position. Capital assets were \$56,214, as of June 30, 2018, net of accumulated depreciation. All reported capital assets except construction-in-progress are depreciated. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

| <u>Asset Class</u> | <u>Useful Life</u> |
|----------------------------------|---------------------------|
| Computers & Technology Assets | 3 years |
| Furniture, Fixtures, & Equipment | 5 years |
| Textbooks | 3 years |

The School’s policy for asset capitalization threshold is \$5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompanying statement of net position.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intergovernmental Revenues - The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which 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 School 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.

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recorded \$990,732 this fiscal year from the State Foundation Program and Casino Tax Revenues and \$20,113 from the ODJFS Program. The School also received \$175,365 from Federal Grants, \$105,020 from the State Early Childhood Education grant, and \$73,400 from the Cleveland Municipal School District.

Compensated Absences - Vacation is taken in a manner which corresponds with the school calendar; therefore, the School does not accrue vacation time as a liability.

Sick/personal leave benefits are earned by full-time employees at the rate of thirteen days per year and cannot be carried into the subsequent years. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

Accrued Liabilities - Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of Accounts Payable, Accrued Expenses, and Withholding Payable totaling \$56,822 at June 30, 2018.

Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the School 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 School must provide local resources to be used for a specified purpose, and expenses requirements, in which the resources are provided to the School on a reimbursement basis.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position - Net position represent the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, 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 the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2018.

Deferred Inflows and Deferred Outflows of Resources – In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 8 an 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 applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position. (See Notes 8 and 9)

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon 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.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3 - CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No. 40, “Deposit, and Investment Risk Disclosures”.

The School maintains its cash balances at one financial institution, PNC Bank located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2018, the book amount of the School’s deposits was \$267,866 and the bank balance was \$294,944.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School 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 to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured.

NOTE 4 - RECEIVABLES

Intergovernmental Receivable - The School had receivables totaling \$8,783 at June 30, 2018. These receivables represented monies due to the School from the National School Lunch Program and the Early Childhood Education Grant, but not received as of June 30, 2018.

Accounts Receivable - The School had receivables totaling \$33,216 at June 30, 2018. These receivables represented monies due to the School from the parents from charges for services, but not received as of June 30, 2018.

NOTE 5 - CAPITAL ASSETS

For the period ending June 30, 2018, the School’s capital assets consisted of the following:

| | Balance 06/30/17 | Additions | Deletions | Balance 06/30/18 |
|---------------------------------|---------------------|------------------|--------------------|---------------------|
| Capital Assets: | | | | |
| Construction in Progress | \$ 70,268 | \$ - | \$ (70,268) | \$ - |
| Furniture, Fixtures & Equipment | - | 70,268 | - | 70,268 |
| Total Capital Assets | <u>70,268</u> | <u>70,268</u> | <u>(70,268)</u> | <u>70,268</u> |
| Less Accumulated Depreciation: | | | | |
| Furniture & Equipment | - | (14,054) | - | (14,054) |
| Total Accumulated Depreciation | <u>-</u> | <u>(14,054)</u> | <u>-</u> | <u>(14,054)</u> |
| Total Capital Assets, Net | <u>\$ 70,268</u> | <u>\$ 56,214</u> | <u>\$ (70,268)</u> | <u>\$ 56,214</u> |

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 6 – LONG-TERM OBLIGATIONS

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

| | Restated Balance <u>6/30/2017</u> | <u>Additions</u> | <u>Reductions</u> | Balance <u>6/30/2018</u> |
|---------------------------------|---|------------------|---------------------|-----------------------------|
| Post Employment Liability: | | | | |
| Net Pension Liability | \$ 2,063,013 | \$ - | \$ (131,175) | \$ 1,931,838 |
| Net OPEB Liability | 533,415 | 45,748 | - | 579,163 |
| Total Post Employment Liability | <u>2,596,428</u> | <u>45,748</u> | <u>(131,175)</u> | <u>2,511,001</u> |
| Total Long-Term Obligations | <u>\$ 2,596,428</u> | <u>\$ 45,748</u> | <u>\$ (131,175)</u> | <u>\$ 2,511,001</u> |

NOTE 7 - RISK MANAGEMENT

Property & Liability - The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2018, the School contracted with Cincinnati Insurance Company for nonprofits and maintained general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate. There have been no reductions in coverage of settlements from the prior year, and there have been no settlements in excess of coverage amounts over the past three years.

Workers’ Compensation - The School pays the State Worker’s Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

Employee Medical and Dental Benefits - The School provides medical, vision, and dental insurance benefits through Medical Mutual to all full-time employees. During the School year, the School paid 80% of the monthly premiums for all employees.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS

Net Pension Liability

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

The net pension liability represents the School'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 School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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 *accrued expenses* on the accrual and basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire on or after August 1, 2017 |
|------------------------------|--|--|
| Full Benefits | Any age with 30 years of service credit Age 65 with 5 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar 1019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14.00 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The School’s contractually required contribution to SERS was \$83,296 for fiscal year 2018.

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12.0 of the 14.0 percent member rates goes to the DC Plan and the remaining 2.0 percent goes 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

The School’s contractually required contributions to STRS was \$66,524 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|---------------------------|---------------------------|--------------|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.01185200% | 0.00357170% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | <u>0.01501160%</u> | <u>0.00435663%</u> | |
| Change in Proportionate Share | <u><u>0.00315960%</u></u> | <u><u>0.00078493%</u></u> | |
| Proportionate Share of the Net Pension | | | |
| Liability | 896,911 | 1,034,927 | 1,931,838 |
| Pension Expense | 204,353 | (153,129) | 51,224 |

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-----------------------|-------------------------|-------------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | 38,601 | 39,967 | 78,568 |
| Changes of assumptions | 46,380 | 226,350 | 272,730 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 461,595 | 786,445 | 1,248,040 |
| Academy contributions subsequent to the measurement date | <u>83,296</u> | <u>66,524</u> | <u>149,820</u> |
| Total Deferred Outflows of Resources | <u><u>629,872</u></u> | <u><u>1,119,286</u></u> | <u><u>1,749,158</u></u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | 0 | 8,341 | 8,341 |
| Changes of assumptions | 0 | - | - |
| Net difference between projected and actual earnings on pension plan investments | 4,257 | 34,155 | 38,412 |
| Changes in proportion and differences between contributions and proportionate share of contributions | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Deferred Inflows of Resources | <u><u>4,257</u></u> | <u><u>42,496</u></u> | <u><u>46,753</u></u> |

\$149,820 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-------------------|---------------------|---------------------|
| Fiscal Year Ending June 30: | | | |
| 2019 | \$ 272,612 | \$ 293,373 | \$ 565,985 |
| 2020 | 238,787 | 339,837 | 578,624 |
| 2021 | 51,828 | 312,914 | 364,742 |
| 2022 | (20,908) | 64,142 | 43,234 |
| | <u>\$ 542,319</u> | <u>\$ 1,010,266</u> | <u>\$ 1,552,585</u> |

Actuarial Assumptions - SERS

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

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

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.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

| | |
|--|--|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| COLA or Ad Hoc COLA | 2.5 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$1,244,678 | \$896,911 | \$605,583 |

Actuarial Assumptions – STRS

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

| | |
|----------------------------|---|
| Inflation | 2.50 percent |
| 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 |
| Cost-of-Living Adjustments | 0.00 percent effective July 1, 2017 |

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

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

| Asset Class | Target Allocation* | Long-Term Expected Real Rate of Return ** |
|----------------------|-----------------------|--|
| Domestic Equity | 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 % | |

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 8 - DEFINED BENEFIT PENSIONS PLANS (continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net pension liability | \$1,483,532 | \$1,034,927 | \$657,044 |

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes Since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE

Net OPEB Liability

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

Net OPEB Liability – continued

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School's surcharge obligation was \$10,362.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$13,447 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|--------------------|--------------|
| Proportion of the Net OPEB Liability | | | |
| Current Measurement Date | 0.01524680% | 0.00435663% | |
| Prior Measurement Date | 0.01074361% | 0.00357170% | |
| Change in Proportionate Share | <u>0.00450319%</u> | <u>0.00078493%</u> | |
| Proportionate Share of the Net OPEB Liability | \$ 409,183 | \$ 169,980 | \$ 579,163 |
| OPEB Expense | \$ 48,935 | \$ (45,872) | \$ 3,063 |

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|---------------|---------------|----------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | 0 | 9,813 | 9,813 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 67,671 | 35,982 | 103,653 |
| Academy contributions subsequent to the measurement date | <u>13,447</u> | <u>0</u> | <u>13,447</u> |
| Total Deferred Outflows of Resources | <u>81,118</u> | <u>45,795</u> | <u>126,913</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | - | - | - |
| Changes of assumptions | 38,829 | 13,692 | 52,521 |
| Net difference between projected and actual earnings on OPEB plan investments | <u>1,081</u> | <u>7,266</u> | <u>8,347</u> |
| Total Deferred Inflows of Resources | <u>39,910</u> | <u>20,958</u> | <u>60,868</u> |

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

\$13,447 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|----------------------|----------------------|----------------------|
| 2019 | 10,180 | 3,534 | 13,714 |
| 2020 | 10,180 | 3,534 | 13,714 |
| 2022 | (271) | 3,532 | 3,261 |
| 2023 | 0 | 5,350 | 5,350 |
| Thereafter | <u>0</u> | <u>5,353</u> | <u>5,353</u> |
| Total | <u><u>27,761</u></u> | <u><u>24,837</u></u> | <u><u>52,598</u></u> |

Actuarial Assumptions - SERS

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

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

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

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

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

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

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

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

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

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

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net OPEB liability | \$494,142 | \$409,183 | \$341,876 |

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

| | 1% Decrease (6.5 % decreasing to 4.0%) | Current Trend Rate (7.5 % decreasing to 5.0%) | 1% Increase (8.5 % decreasing to 6.0%) |
|---|--|--|--|
| School's proportionate share of the net OPEB liability | \$332,022 | \$409,183 | \$511,309 |

Actuarial Assumptions – STRS

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

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

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

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

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

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 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 % | |

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9 – POST EMPLOYMENT BENEFIT NOTE (continued)

payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of

3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

| | 1% Decrease (3.13%) | Current Discount Rate (4.13%) | 1% Increase (5.13%) |
|---|------------------------|-------------------------------------|------------------------|
| School's proportionate share of the net OPEB liability | \$228,195 | \$169,980 | \$123,971 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|-------------|-----------------------|-------------|
| School's proportionate share of the net OPEB liability | \$118,095 | \$169,980 | \$238,266 |

NOTE 10 - CONTINGENCIES

Grants - The School received financial assistance from federal and state agencies in the form of grants. Amount received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amount which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

Litigation - There are currently no matters in litigation with the School as defendant.

Full-Time Equivalency - 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.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 10 - CONTINGENCIES (continued)

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

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

In addition, the School's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not fully determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

NOTE 11 - SPONSOR CONTRACT

The School contracted with Cleveland Metropolitan School District as its sponsor and oversight services as required by law. Sponsorship fees are calculated as one and a half percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2018, the total sponsorship fees paid totaled \$19,014.

NOTE 12 – PURCHASED SERVICES

For the period of July 1, 2017 through June 30, 2018, the School made the following purchased services commitments.

| <u>Purchased Services</u> | <u>Amount</u> |
|---------------------------|------------------|
| Professional Services | \$ 179,273 |
| Property Services | 53,224 |
| Utilities | 57,149 |
| Travel & Meetings | 3,301 |
| Communications | 14,437 |
| Contractual Trade | 127,384 |
| Total | <u>\$434,768</u> |

NOTE 13 – RESTATEMENT OF NET POSITION

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 13 – RESTATEMENT OF NET POSITION (continued)

| | |
|--|---------------------|
| Net Position June 30, 2017 | \$ (81,326) |
| Adjustments: | |
| Net OPEB liability | (533,415) |
| Deferred Outflow - Payments Subsequent to Measurement Date | <u>9,913</u> |
| Restated Net Position June 30, 2017 | <u>\$ (604,828)</u> |

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

NOTE 14 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

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

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See Note 13 for the effect on net position as previously reported.

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

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

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

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

| | 2018 | 2017 |
|--|------------|------------|
| School's Proportion of the Net Pension Liability | 0.0150116% | 0.0118520% |
| School's Proportionate Share of the Net Pension Liability | \$ 896,911 | \$ 867,457 |
| School's Covered Payroll | \$ 473,500 | \$ 435,071 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 189.42% | 199.38% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.50% | 62.98% |

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

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

See accompanying notes to the required supplementary information.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

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)

| | 2018 | 2017 |
|--|--------------|--------------|
| School's Proportion of the Net Pension Liability | 0.00435663% | 0.00357170% |
| School's Proportionate Share of the Net Pension Liability | \$ 1,034,927 | \$ 1,195,556 |
| School's Covered Payroll | \$ 480,464 | \$ 308,386 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 215.40% | 387.68% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.30% | 66.80% |

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

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

See accompanying notes to the required supplementary information.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

Required Supplementary Information
 Schedule of School Contributions
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-----------------|-----------------|-----------------|
| Contractually Required Contribution | \$ 83,296 | \$ 66,290 | \$ 60,910 |
| Contributions in Relation to the Contractually Required Contribution | <u>(83,296)</u> | <u>(66,290)</u> | <u>(60,910)</u> |
| Contribution Deficiency (Excess) | <u>0</u> | <u>0</u> | <u>0</u> |
| School Covered Payroll | \$ 617,007 | \$ 473,500 | \$ 435,071 |
| Contributions as a Percentage of Covered Payroll | 13.50% | 14.00% | 14.00% |

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information.

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

Required Supplementary Information
 Schedule of School Contributions - Pension
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-----------------|-----------------|-----------------|
| Contractually Required Contribution | \$ 66,524 | \$ 67,265 | \$ 43,174 |
| Contributions in Relation to the Contractually Required Contribution | <u>(66,524)</u> | <u>(67,265)</u> | <u>(43,174)</u> |
| Contribution Deficiency (Excess) | <u>0</u> | <u>0</u> | <u>0</u> |
| School Covered Payroll | \$ 475,171 | \$ 480,464 | \$ 308,386 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% |

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information.

STONEBROOK MONTESSORI – CUYAHOGA COUNTY, OHIO

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

| | 2018 | 2017 |
|---|------------|------------|
| School's Proportion of the Net OPEB Liability | 0.0152468% | 0.0107436% |
| School's Proportionate Share of the Net OPEB Liability | \$ 409,183 | \$ 342,400 |
| School's Covered Payroll | \$ 473,500 | \$ 435,071 |
| School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 86.42% | 78.70% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 12.46% | 11.49% |

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

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

See accompanying notes to the required supplementary information

STONEBROOK MONTESSORI – CUYAHOGA COUNTY, OHIO

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

| | 2018 | 2017 |
|---|-------------|-------------|
| School's Proportion of the Net OPEB Liability | 0.00435663% | 0.00357170% |
| School's Proportionate Share of the Net OPEB Liability | \$ 169,980 | \$ 191,015 |
| School's Covered Payroll | \$ 480,464 | \$ 308,386 |
| School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 35.38% | 61.94% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 47.10% | 37.30% |

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

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

See accompanying notes to the required supplementary information

STONEBROOK MONTESSORI – CUYAHOGA COUNTY, OHIO

Required Supplementary Information
 Schedule of School Contributions - OPEB
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-----------------|----------------|----------------|
| Contractually Required Contribution (2) | \$ 13,447 | \$ 9,913 | \$ 6,086 |
| Contributions in Relation to the Contractually Required Contribution | <u>(13,447)</u> | <u>(9,913)</u> | <u>(6,086)</u> |
| Contribution Deficiency (Excess) | <u>0</u> | <u>0</u> | <u>0</u> |
| School Covered Payroll | \$ 617,007 | \$ 473,500 | \$ 435,071 |
| OPEB Contributions as a Percentage of Covered Payroll (2) | 2.18% | 2.09% | 1.40% |

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

STONEBROOK MONTESSORI – CUYAHOGA COUNTY, OHIO

Required Supplementary Information
 Schedule of School Contributions - OPEB
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|
| Contractually Required Contribution | \$ 0 | \$ 0 | \$ 0 |
| Contributions in Relation to the Contractually Required Contribution | <u>0</u> | <u>0</u> | <u>0</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| School Covered Payroll | \$ 475,171 | \$ 480,464 | \$ 308,386 |
| Contributions as a Percentage of Covered Payroll | 0.00% | 0.00% | 0.00% |

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

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

Net Pension Liability

Changes of benefit terms - SERS:

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2018.

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

Changes in assumptions - SERS:

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

Changes in benefit terms - STRS:

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

Changes in assumptions - STRS:

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

STONEBROOK MONTESSORI - CUYAHOGA COUNTY, OHIO

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

Net OPEB Liability

Changes in Assumptions – SERS

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

Municipal Bond Index Rate:

| | |
|------------------|--------------|
| Fiscal year 2018 | 3.56 percent |
| Fiscal year 2017 | 2.92 percent |

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

| | |
|------------------|--------------|
| Fiscal year 2018 | 3.63 percent |
| Fiscal year 2017 | 2.98 percent |

Changes in Assumptions – STRS

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

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

December 26, 2018

To the Board of Trustees
Stonebrook Montessori
975 East Boulevard
Cleveland, Ohio 44108

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Stonebrook Montessori, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 26, 2018, in which we noted the School restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, "Accounting and Financial reporting for Postemployment Benefits other than Pensions."

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio

OHIO AUDITOR OF STATE KEITH FABER



STONEBROOK MONTESSORI

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 14, 2019**