

LAKE ERIE INTERNATIONAL HIGH SCHOOL

CUYAHOGA COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2019





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Board of Directors
Lake Erie International High School
11650 Detroit Avenue
Cleveland, Ohio 44124

We have reviewed the *Independent Auditor's Report* of the Lake Erie International High School, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. 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 Lake Erie International High School is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

February 26, 2020

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LAKE ERIE INTERNATIONAL HIGH SCHOOL
 CUYAHOGA COUNTY
 AUDIT REPORT
 For the Year Ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Lake Erie International High School
Cuyahoga County
11650 Detroit Avenue
Cleveland, Ohio 44124

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Erie International High School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2019, 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 School'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 School'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 Lake Erie International High School, Cuyahoga County, Ohio, as of June 30, 2019, and the changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities, other postemployment benefit liabilities/assets, and pension and other postemployment benefit contributions listed in the table of contents, 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 January 16, 2020, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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.



Charles E. Harris & Associates, Inc.
January 16, 2020

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2019
UNAUDITED**

The discussion and analysis of the Lake Erie International High School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- Total net position was \$1,195,140 in fiscal year 2019.
- Total operating and non-operating revenues were \$ 2,841,002 in fiscal year 2019.
- Total expenses were \$2,615,030 in fiscal year 2019.
- Current liabilities were \$136,200 in fiscal year 2019.
- The School had \$2,223,406 of long-term liabilities as of June 30, 2019.
- Net Pension Liability increased \$305,697. Total Deferred Inflows increased by \$224,324.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the School did financially during fiscal year 2019. 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 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.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)**

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2019. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources 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 2019 and 2018.

(Table 1)

Statement of Net Position

	2019	2018
Assets		
Current Assets	\$ 1,860,018	\$ 1,697,193
Non-Current Assets	143,282	11,600
Capital Assets, Net	727,569	731,654
Total Assets	2,730,869	2,440,447
Deferred Outflows of Resources		
Pension Requirements	1,070,041	1,028,480
OPEB	120,499	37,817
Total Deferred Outflows of Resources	1,190,540	1,066,297
Liabilities		
Liabilities		
Current Liabilities	136,200	254,547
Long Term Liabilities	2,223,406	2,140,690
Total Liabilities	2,359,606	2,395,237
Deferred Inflows of Resources		
Pension Requirements	145,252	89,815
OPEB	221,411	52,524
Total Deferred Inflows of Resources	366,663	142,339
Net Position		
Net Investment in Capital Assets	727,569	731,654
Restricted for Food Service	-	6,101
Unrestricted	467,571	231,413
Total Net Position	\$ 1,195,140	\$ 969,168

Total assets were \$2,730,869, while total liabilities were \$2,359,606. Cash and cash equivalents were \$1,697,623 while receivables and other current assets were \$162,395.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)**

Statement of Revenues, Expenses and Changes in Net Position

Table 2, below, demonstrates the net position for fiscal year 2019, 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 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

	2019	2018
Operating Revenue		
State Aid	\$ 2,355,993	\$ 2,620,705
Casino Aid	13,605	12,141
Facilities Aid	45,136	50,394
Rental Income	120,000	-
Non-Operating Revenue		
Grants	290,843	213,775
Miscellaneous	12,722	5,568
Interest Income	2,703	7,175
Total Revenues	2,841,002	2,909,758
Operating Expense		
Purchased Services: Salaries and Benefits	-	1,299,688
Purchased Services: Mgt Fees	-	481,732
Sponsorship Fees	-	78,841
Legal	-	56,346
Auditing & Accounting	-	41,725
Other Professional Services	-	201,279
Other Purchased Services	-	300,725
Equipment and Furniture	-	14,196
Salaries	949,302	
Benefits	266,496	
Change in Net Pension and OPEB Liability	51,115	(713,064)
Purchased Services	1,099,712	
Supplies	116,001	67,733
Depreciation	29,872	16,617
Other Operating Expenses	81,316	23,074
Non-Operating Expenses		
Loss on Disposition of Asset/Write-off of AR	20,061	-
Interest and Fiscal Charges	1,155	629
Total Expenses	2,615,030	1,869,521
Change in Net Position	\$ 225,972	\$ 1,040,237

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)**

Total revenue decreased slightly by \$(68,756) or 2% due mainly to a decrease in State Aid by \$(264,712) or 10%. In FY18, the School's most significant expenses, "Purchased Services – Management Fee" and "Salaries and Benefits" increased due to enrollment and the change in grant accounting, as well as because of the management agreement in place between the School and Midwest Education Partners, LLC dba Cambridge Education Group (CEG). The agreement provides that specific percentages of the revenues received by the School will be paid to CEG to fund operations.

In FY19, the School contracted with a different management company Educational Empowerment Group (EEG), however EEG did not handle payroll for the School as with the previous management company. As such salaries and benefits were reported separately.

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2019 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2019, 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/asset to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)**

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/asset. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability/asset 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 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/asset, respectively, not accounted for as deferred inflows/outflows.

In conclusion, the application of GASB Statement No. 68/75 requires the reader to perform additional calculations to determine the Academy's total net position at June 30, 2019 without the implementation of GASB Statement No. 68/75. This is an important exercise, as the State Pension Systems (STRS & SERS) collect, hold and distributes pensions to our employees, not the Academy. These calculations are as follows:

Total Net Position (with GASB 68/75)	\$ 1,195,140
GASB 68/75 Calculations:	
Add Deferred Inflows related to Pension/OPEB	366,663
Add Net Pension Liability/OPEB	2,223,406
Less Net OPEB Asset	(131,682)
Less Deferred Outflows related to Pension/OPEB	(1,190,540)
Total Net Position (without GASB 68/75)	<u><u>\$ 2,462,987</u></u>

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one-year spending plan and a five-year forecast that is reviewed periodically by the Board of Directors. The five-year forecasts are also submitted to the Sponsor and the Ohio Department of Education.

Debt

At June 30, 2019, the School had no long-term debt.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)**

Capital Assets

At the end of fiscal year 2019 the School had \$33,876 invested in equipment.

(Table 3)
Capital Assets (Net of Depreciation)

	<u>2019</u>	<u>2018</u>
Land	\$ 191,500	\$ 191,500
Buildings	502,193	493,052
Furniture, Fixtures and Equipment	<u>33,876</u>	<u>47,102</u>
Total	<u>\$ 727,569</u>	<u>\$ 731,654</u>

For more information on capital assets, see Note 6 in the notes to the basic financial statements.

Current Financial Issues

The Lake Erie International High School received revenue for 258 students in 2019 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$10,453 in fiscal year 2019. The School receives additional revenues from grant subsidies.

On July 1, 2005, the School contracted with the Saint Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to three percent (3%) of State revenues as an oversight fee. In June 2015, the School extended its contract with SAO through June 30, 2019. SAO was paid three percent (3%) of state foundation funds received by the School from the State of Ohio. In June 2018, the School and the Sponsor signed a new agreement for a term of one (1) year and will automatically renew for one (1) year terms through June 30, 2021. The school may terminate the agreement by sending notice 180 days prior to June 30. The Sponsor can terminate by sending notice by February 1st of the termination year.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Darlene C Holt, Fiscal Officer for the Lake Erie International High School, 11650 Detroit Avenue, Cleveland, Ohio 44102 or e-mail at holtbiz.consult@gmail.com.

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**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2019**

ASSETS

Current Assets

Cash and Cash Equivalents	\$1,697,623
Retirement Receivable	36,914
State Funding Receivable	13,058
Receivable from School	20,000
Grants Receivable	92,423
	<hr/>

Total Current Assets 1,860,018

Noncurrent Assets

Leasehold Deposits	11,600
Net OPEB Asset	131,682
Non-Depreciable Capital Assets	191,500
Depreciable Capital Assets, net	536,069
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Total Non-Current Assets 870,851

Total Assets 2,730,869

DEFERRED OUTFLOWS OF RESOURCES

Pension Requirements	1,070,041
OPEB	120,499
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Total Deferred Outflows of Resources 1,190,540

LIABILITIES

Current Liabilities

Accounts Payable	50,290
Grants Funding Payable	85,910
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Total Current Liabilities 136,200

Long-Term Liabilities:

Net Pension Liability	2,092,935
Net OPEB Liability	130,471
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Total Long-Term Liabilities 2,223,406

Total Liabilities 2,359,606

DEFERRED INFLOWS OF RESOURCES

Pension Requirements	145,252
OPEB	221,411
	<hr/>

Total Deferred Inflows of Resources 366,663

NET POSITION

Net Investment in Capital Assets	727,569
Unrestricted	467,571
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Total Net Position \$1,195,140

See accompanying notes to the basic financial statements

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

OPERATING REVENUES	
State Aid	\$ 2,355,993
Casino Aid	13,605
Facilities Aid	45,136
Rental Income	<u>120,000</u>
Total Operating Revenues	<u>2,534,734</u>
OPERATING EXPENSES	
Salaries	949,302
Benefits	266,496
Change in Net Pension and OPEB Liability	51,115
Purchased Services	1,099,712
Supplies	116,001
Depreciation	29,872
Other Operating Expenses	<u>81,316</u>
Total Operating Expenses	<u>2,593,814</u>
Operating Income	(59,080)
NON-OPERATING REVENUE/(EXPENSES)	
Grants	290,843
Interest and Fiscal Charges	(1,155)
Miscellaneous	12,722
Loss on Disposition of Asset/Write-off of AR	(20,061)
Interest Income	<u>2,703</u>
Total Non-Operating Revenue	<u>285,052</u>
Change in Net Position	225,972
Net Position Beginning of Year	<u>969,168</u>
Net Position End of Year	<u><u>\$ 1,195,140</u></u>

See accompanying notes to the basic financial statements

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 2,513,264
Cash Payments to Employees for Services	(949,302)
Cash Payments for Employee Benefits	(310,794)
Cash Payments to Suppliers for Goods and Services	(1,357,758)
Other Cash Payments	(59,846)
	(164,436)

Net Cash Used For Operating Activities

(164,436)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Miscellaneous Cash Receipts	12,722
Cash Received from Grant Programs	204,774
	217,496

Net Cash Provided by Noncapital Financing Activities

217,496

CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES

Cash Payments for Interest and Fiscal Charges	(1,155)
Cash Payments for Capital Assets	(25,787)
	(26,942)

Net Cash Used for Capital and Financing Activities

(26,942)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	2,703
	2,703

Net Increase in Cash and Cash Equivalents

28,821

Cash and Cash Equivalents Beginning of Year

1,668,802

Cash and Cash Equivalents End of Year

\$ 1,697,623

**RECONCILIATION OF OPERATING INCOME TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	(59,080)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Depreciation	29,872
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Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources:

Receivable from School	(18,023)
State Funding Receivable	(13,058)
Accounts Payable	(11,226)
State Funding Payable	(8,412)
Continuing Fee Payable	(91,326)
Retirement Payable	(44,298)
Net OPEB Asset	(131,682)
Net Pension Liability	305,697
Deferred Outflows-Pension	(41,561)
Deferred Inflows-Pension	55,437
Net OPEB Liability	(222,981)
Deferred Outflows-OPEB	(82,682)
Deferred Inflows-OPEB	168,887
Total Adjustments	(135,228)

Net Cash Provided by Operating Activities

\$ (164,436)

See accompanying notes to the basic financial statements

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**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Lake Erie International High School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with Educational Empowerment Group LLC (EEG), for most of its functions. EEG is an educational consulting and management company and is the entity with which the School's board interacts regarding day-to-day operations (see Note 8 for details).

The School was originally approved for operation under contract with the Ohio State Board of Education for a period of five years from May 16, 2000 through June 30, 2005. Effective July 1, 2005, House Bill 364 required schools sponsored by the Ohio Department of Education to have new sponsorship in place by June 30, 2005. The School signed a contract with a sponsor, Saint Aloysius Orphanage (Sponsor), to operate for a period from July 1, 2005 through June 30, 2011. In June 2011, the School extended its contract with SAO through June 30, 2013. In July 1, 2013, the School renewed its contract through June 30, 2019. Effective July 1, 2018, the School renewed its contract through June 30, 2021.

The School operates under a self-appointing, six-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School began operations in January 2003 and has one instructional/support facility, which is leased by the School. The facility is staffed with teaching personnel employed by CEG, who provide services to 231 students. As of June 30, 2019, five Board members also sit on the Board of West Preparatory Academy in the City of Cleveland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles 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.

A. Basis of Presentation

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

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2019. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash and Cash Equivalents

All cash received by the School is maintained in a demand deposit account, money market account, and STAR Ohio. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2019, investments were limited to the State Treasurer's Investment Pool, STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2019.

For the fiscal year ended June 30, 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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. Amounts awarded under the above programs for the 2019 school year totaled \$2,705,577.

F. Capital Assets and Depreciation

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

The capital assets are recorded on the accompanying Statement of Net Position at cost, net of accumulated depreciation, at \$727,569. Depreciation is computed by the straight-line method over five years for Computers and Equipment.

G. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Net Position

Net Position represent the difference between (all assets plus deferred outflows of resources) less (all liabilities, plus deferred inflows of resources). Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net Position are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State Aid, Facilities Aid, and Casino Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

J. Pensions

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

K. Deferred Outflows/Inflows 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. The deferred outflows of resources related to pension are explained in Note 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. 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 are reported on the statement of net position (see Note 9).

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all School deposits was \$1,697,605, and its bank balance was \$1,726,707. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2019, \$296,804 of the District balance was covered by the Federal Deposit Insurance Corporation (FDIC) and \$1,429,921 of the School's bank balance was covered by the Ohio Pooled Collateral System (OPSC) as discussed below. The School's financial institution participates in the OPCS and was approved for a reduced collateral floor of 50% resulting in the uninsured and uncollateralized balance.

The investment and deposit of School monies is governed by the provisions of the ORC. In accordance with these statutes, the School is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit and STAR Ohio.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the School will not be able to recover deposit or collateral securities that are in possession of an outside party. The School has no deposit policy for custodial credit risk beyond the requirements of state statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Schools and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the School financial institution was approved for a collateral rate of 50 percent through the OPCS. Although statutory requirement for the deposit of money have been followed, non compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

B. Investments

As of June 30, 2019, the School had the following investments and maturities:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>Investment Maturities</u> <u>6 months or less</u>
STAROhio	\$18	\$18

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School, will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The School's investments in federal agency securities are exposed to custodial credit risk in that it is uninsured, unregistered and held by the counterparty's trust department or agent but not in the School's name. The School's investment policy does not deal with investment custodial credit risk beyond the requirements in State statute that prohibits payment for investments prior to delivery of the securities representing such investments to the treasurer or qualified trustee.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2019, is 53.3 days.

Credit Risk: The School's investments at June 30, 2019 in STAROhio are rated AAAM by Standard & Poor's.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2019:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>Percent to Total</u>
STAROhio	\$18	100%

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

4. RECEIVABLES

The School has recorded "Grants Receivable" in the amount of \$92,423 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2019. The school also has \$13,058 recorded under "State Funding Receivable" related to underpayments on the State Foundation. The School has recorded "Receivable from School" in the amount of \$20,000 for rent due but unpaid at June 30, 2019. "Retirement System Receivable" in the amount of \$36,914 for amounts due from the Pension Systems at June 30, 2019.

5. PAYABLE

Accounts Payable consists of obligations totaling \$50,290 at June 30, 2019, incurred during the normal course of conducting operations. Additionally, the School has recorded "Grants Funding Payable" to White Hat Management Company, LLC (WHLS) in the amount of \$85,910 for 100 percent of any State and Federal monies uncollected or unpaid as of June 30, 2013, as the school and the management company reconcile outstanding balances.

6. CAPITAL ASSETS AND DEPRECIATION

For the fiscal year ended June 30, 2019, the Schools' capital assets consisted of the following:

	<u>Balance</u> <u>6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2019</u>
Capital Assets Not Being Depreciated				
Land	\$ 191,500	\$ -	\$ -	\$ 191,500
Capital Assets Being Depreciated				
Buildings	498,377	-	-	498,377
Improvements	-	25,787	-	25,787
Computers & Equipment	40,348	-	-	40,348
Vehicles	<u>25,775</u>	<u>-</u>	<u>-</u>	<u>25,775</u>
Total Assets Being Depreciated	<u>564,500</u>	<u>25,787</u>	<u>-</u>	<u>590,287</u>
Less: Accumulated Depreciation				
Buildings	(5,325)	(12,778)		(18,103)
Improvements	-	(3,868)		(3,868)
Computers & Equipment	(12,577)	(8,070)	-	(20,647)
Vehicle	<u>(6,444)</u>	<u>(5,156)</u>	<u>-</u>	<u>(11,600)</u>
Total Assets Being Depreciated	<u>(24,346)</u>	<u>(29,872)</u>	<u>-</u>	<u>(54,218)</u>
Total Capital Assets being Depreciated, Net	<u>\$ 731,654</u>	<u>\$ (4,085)</u>	<u>\$ -</u>	<u>\$ 727,569</u>

7. RISK MANAGEMENT

A. **Property and Liability** - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2019, the School contracted with the Cincinnati Insurance Company for the following insurance coverage:

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

7. RISK MANAGEMENT (Continued)

Commercial General Liability per occurrence	\$ 1,000,000
Commercial General Liability aggregate	4,000,000
Director and Officers Liability	1,000,000
Employment Practices Liability	1,000

B. Worker's 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. The School had paid all premiums as of June 30, 2019. Settled claims have not exceeded commercial coverage in any year of the past three fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

C. Employee Medical, Dental and Vision Benefits

The School has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week.

8. AGREEMENT WITH EDUCATIONAL EMPOWERMENT GROUP

Effective July 1, 2018, the School entered into a management agreement (Agreement) with Educational Empowerment Group, LLC (EEG, LLC), which is an educational consulting and management company. The initial term of the Agreement with EEG, LLC will expire on June 30, 2019 and will automatically renew for 2 additional years unless one party notifies the other party no later than six months prior to the term expiration date of its intention to not renew the Agreement. Substantially all functions of the School have been contracted to EEG, LLC.

EEG, LLC is responsible and accountable to the School's Board of Directors for the administration and operation of the School. The School is required to pay EEG, LLC a monthly continuing fee of 16 percent of the School's "Qualified gross revenues", defined in the Agreement as, all revenues and income received by the School except for charitable contributions. The continuing fee is paid to EEG, LLC based on the qualified gross revenues.

The School had purchased service expenses for the year ended June 30, 2019, to EEG of \$402,659 (which includes \$382,835 in management fees), with payable to EEG at June 30, 2019, aggregating \$91,326. EEG is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

9. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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.

The 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*. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accounts payable*.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before <u>August 1, 2017</u> *	Eligible to Retire on or after <u>August 1, 2017</u>
Full benefits	Age 65 with 5 years of service; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

The School's contractually required contribution to SERS was \$36,412 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$88,143 for fiscal year 2019.

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00508240%	0.00819482%	
Prior Measurement Date	<u>0.00410840%</u>	<u>0.00649024%</u>	
Change in Proportionate Share	<u>0.00097400%</u>	<u>0.00170458%</u>	
Proportionate Share of the Net Pension Liability	\$ 291,078	\$ 1,801,857	\$ 2,092,935
Pension Expense	\$ 51,560	\$ 392,569	\$ 444,129

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.

At June 30, 2019 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	\$ 15,964	\$ 41,592	\$ 57,556
Changes of Assumptions	6,574	319,323	325,897
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	43,244	518,789	562,033
School Contributions Subsequent to the Measurement Date	<u>36,412</u>	<u>88,143</u>	<u>124,555</u>
Total Deferred Outflows of Resources	<u>\$ 102,194</u>	<u>\$ 967,847</u>	<u>\$ 1,070,041</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 11,768	\$ 11,768
Net Difference between Projected and Actual Earnings on Pension Plan Investments	8,063	109,260	117,323
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	<u>16,161</u>	<u>0</u>	<u>16,161</u>
Total Deferred Inflows of Resources	<u>\$ 24,224</u>	<u>\$ 121,028</u>	<u>\$ 145,252</u>

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

\$124,555 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 fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 44,108	\$ 376,411	\$ 420,519
2021	9,477	238,638	248,115
2022	(9,552)	103,748	94,196
2023	(2,475)	39,878	37,403
	\$ 41,558	\$ 758,675	\$ 800,233

Actuarial Assumptions - SERS

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

The actual assumptions used in the June 30, 2018 valuation were based on the results of an experience study that was completed June 30, 2015.

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. 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 percent of male rates, and 110 percent of female rates. Mortality among disabled members was updated to 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 long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

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9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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 School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the School's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School's Proportionate Share of the Net Pension Liability	\$ 410,006	\$ 291,078	\$ 191,366

Actuarial Assumptions - STRS

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

Inflation	2.5 percent
Projected salary increases	2.5 percent at age 65 to 12.5 percent at age 20
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Discount rate of return	7.45 percent
Payroll increases	3 percent
Cost of living adjustments (COLA)	0 percent, effective July 1, 2017

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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9. DEFINED BENEFIT PENSION PLANS (Continued)

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

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

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

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 as of June 30, 2018, 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 assumption:

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9. DEFINED BENEFIT PENSION PLANS (Continued)

	1% Decrease	Current Discount Rate	1% Increase
School's Proportionate Share of the Net Pension Liability	\$ 2,631,375	\$ 1,801,857	\$ 1,099,783

10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS

Net OPEB Asset/Liability

The net OPEB asset/liability reported on the statement of net position represents an asset or 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 asset/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 asset/liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

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

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB asset/ liability. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in accounts payable.

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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School's surcharge obligation was \$549.

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 \$1,358 for fiscal year 2019. Of this amount \$9 is reported as an accounts payable.

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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB asset/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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability/(Asset):			
Current Measurement Date	0.00470290%	(0.00819482%)	
Prior Measurement Date	<u>0.00373460%</u>	<u>(0.00649024%)</u>	
Change in Proportionate Share	<u>0.00096830%</u>	<u>0.00170458%</u>	
Proportionate Share of the Net			
OPEB Liability/(Asset)	\$ 130,471	\$ (131,682)	\$ (1,211)
OPEB Expense	\$ 4,615	\$ (271,715)	\$ (267,100)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 2,129	\$ 15,381	\$ 17,510
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	21,995	79,636	101,631
School Contributions Subsequent to the Measurement Date	<u>1,358</u>	<u>0</u>	<u>1,358</u>
Total Deferred Outflows of Resources	<u>\$ 25,482</u>	<u>\$ 95,017</u>	<u>\$ 120,499</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 7,672	\$ 7,672
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	197	15,043	15,240
Changes of Assumptions	11,721	179,427	191,148
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	<u>7,351</u>	<u>0</u>	<u>7,351</u>
Total Deferred Inflows of Resources	<u>\$ 19,269</u>	<u>\$ 202,142</u>	<u>\$ 221,411</u>

\$1,358 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ (4,880)	\$ (19,537)	\$ (24,417)
2021	(2,836)	(19,537)	(22,373)
2022	3,634	(19,535)	(15,901)
2023	3,717	(16,118)	(12,401)
2024	3,705	(14,915)	(11,210)
Thereafter	<u>1,515</u>	<u>(17,483)</u>	<u>(15,968)</u>
	<u>\$ 4,855</u>	<u>\$ (107,125)</u>	<u>\$ (102,270)</u>

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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

Actuarial Assumptions - SERS

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

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

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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 and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	<u>1% Decrease (2.70%)</u>	<u>Current Discount Rate (3.70%)</u>	<u>1% Increase (4.70%)</u>
School's Proportionate Share of the Net OPEB Liability	\$ 158,316	\$ 130,471	\$ 108,423
	<u>1% Decrease (6.25% decreasing to 3.75%)</u>	<u>Current Trend Rate</u>	<u>1% Increase (8.2% decreasing to 5.75%)</u>
School's Proportionate Share of the Net OPEB Liability	\$ 105,266	\$ 130,471	\$ 163,847

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

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
Discount rate of return	7.45 percent
Health care cost trends:	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	(5.23) percent initial, 4 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2018, valuation 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 the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

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:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

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

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

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

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended 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 projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

Sensitivity of the School's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/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 assumption. Also shown is the net OPEB Asset/liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School's Proportionate Share			
of the Net OPEB Liability/(Asset)	\$ (112,864)	\$ (131,682)	\$ (147,498)
	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School's Proportionate Share			
of the Net OPEB Liability/(Asset)	\$ (146,605)	\$ (131,682)	\$ (116,527)

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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11. CONTINGENCIES

A. Grants

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

B. Full Time Equivalency

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2019 and determined the School was owed \$13,058. This amount is reported as state funding receivable on the statement of net position.

As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 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 its Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 are not finalized. Until such adjustments are finalized by ODE, the impact of the fiscal year 2019 financial statements related to additional reconciliation necessary with these contracts, is not determinable. Management believes that this may result in either an additional receivable, or to liability, of the School.

C. Litigation

In February 2009, the School filed a lawsuit against the WHLS and its affiliates for matters related to the management agreement. The effect of this lawsuit is presently not determinable.

12. FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

13. SPONSORSHIP FEES

On July 1, 2005, the School contracted with the Saint Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to three percent (3%) of State revenues as an oversight fee. In June 2015, the School extended its contract with SAO through June 30, 2019. SAO was paid three percent (3%) of state foundation funds received by the School from the State of Ohio. In June 2018, the School and the Sponsor signed a new agreement for a term of one (1) year and will automatically renew for one (1) year terms through June 30, 2021. The school may terminate the agreement by sending notice 180 days prior to June 30. The Sponsor can terminate by sending notice by February 1st of the termination year. At June 30, 2019, total sponsorship fees are \$70,018.

14. DEPOSITS AND OPERATING LEASES – LESSEE DISCLOSURE

During fiscal year 2013, the school entered into a new lease agreement with BAMF, LLC, an Ohio limited liability company, at a new location known as 11650 Detroit Avenue, Cleveland, Ohio. The term of the lease is eight years with a monthly payment of \$11,600 effective August 1, 2016. The School paid a security deposit of \$11,600 to secure the facility.

15. CAPITALIZED LEASE OBLIGATIONS

The school entered into a capitalized lease for the acquisition of equipment. The lease meets the criteria of a capital lease as defined by the accounting standards, which defines a capital lease generally as one which transfers benefit and risk of ownership to the lessee. This capital lease has been recorded as a capital asset at the present value of the minimum lease payments as of the inception date. The capital lease is recorded as Equipment of \$11,366. The School paid off the lease in fiscal year 2018, but is continuing to lease the same equipment on a month to month basis while it negotiates a new capital equipment lease.

16. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

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

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

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the School's fiscal year 2019 financial statements; however, there was no effect on beginning net position.

17. WEST PREPARATORY ACADEMY LEASE

On February 5th, 2018, the School purchased the building from West Preparatory Academy for \$730,000. The School and West Prep entered into a lease agreement ending June 30, 2019 where West Preparatory Academy pays the school \$10,000 per month.

**LAKE ERIE INTERNATIONAL HIGH SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

18. PURCHASED SERVICES

For the period July 1, 2018 through June 30, 2019, other purchased service expenses were for the following services:

	<u>2019</u>
Professional Services	\$ 815,546
Property Services	201,905
Travel and Professional Development	5,027
Communications	17,990
Utilities	17,109
Trade Services	27,353
Tuition Payments	2,566
Transportation	1,750
Insurance	10,466
Total	<u><u>\$ 1,099,712</u></u>

Lake Erie International High School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Six Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)						
School's Proportion of the Net Pension Liability	0.00508240%	0.00410840%	0.00465970%	0.00373640%	0.00353800%	0.00353800%
School's Proportionate Share of the Net Pension Liability	\$ 291,078	\$ 245,468	\$ 341,047	\$ 213,203	\$ 179,056	\$ 210,394
School's Covered Payroll	\$ 171,800	\$ 132,093	\$ 138,857	\$ 105,000	\$ 99,185	\$ 50,484
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	169.43%	185.83%	245.61%	203.05%	180.53%	416.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)						
School's Proportion of the Net Pension Liability	0.00819482%	0.00649024%	0.00599571%	0.00523815%	0.00385626%	0.00385626%
School's Proportionate Share of the Net Pension Liability	\$ 1,801,857	\$ 1,541,770	\$ 2,065,633	\$ 1,486,966	\$ 937,976	\$ 1,117,311
School's Covered Payroll	\$ 931,614	\$ 749,207	\$ 637,307	\$ 703,243	\$ 267,946	\$ 389,469
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.41%	205.79%	324.12%	211.44%	350.06%	286.88%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Lake Erie International High School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net OPEB Liability
Last Three Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>			
School's Proportion of the Net OPEB Liability	0.00470290%	0.00373460%	0.00422397%
School's Proportionate Share of the Net OPEB Liability	\$ 130,471	\$ 100,227	\$ 120,399
School's Covered Payroll	\$ 171,800	\$ 132,093	\$ 138,857
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	75.94%	75.88%	86.71%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>			
School's Proportion of the Net OPEB Liability/(Asset)	0.00819482%	0.00649024%	0.00599571%
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (131,682)	\$ 253,225	\$ 320,653
School's Covered Payroll	\$ 931,614	\$ 749,207	\$ 637,307
School's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-14.13%	33.80%	50.31%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	176.00%	47.10%	37.30%

Lake Erie International High School
Cuyahoga County, Ohio
Required Supplementary Information-Pensions
Schedule of School Contributions
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
School Employees Retirement System (SERS)										
Contractually Required Contribution	\$ 36,412	\$ 23,193	\$ 18,493	\$ 19,440	\$ 13,839	\$ 13,747	\$ 6,987	\$ 5,451	\$ 7,262	\$ 10,056
Contributions in Relation to the Contractually Required Contribution	<u>(36,412)</u>	<u>(23,193)</u>	<u>(18,493)</u>	<u>(19,440)</u>	<u>(13,839)</u>	<u>(13,747)</u>	<u>(6,987)</u>	<u>(5,451)</u>	<u>(7,262)</u>	<u>(10,056)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$269,719	\$171,800	\$132,093	\$138,857	\$105,000	\$ 99,185	\$ 50,484	\$ 40,528	\$ 57,772	\$ 74,269
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
State Teachers Retirement System (STRS)										
Contractually Required Contribution	\$ 88,143	\$130,426	\$104,889	\$ 89,223	\$ 98,454	\$ 34,833	\$ 50,631	\$ 63,156	\$ 91,845	\$ 96,886
Contributions in Relation to the Contractually Required Contribution	<u>(88,143)</u>	<u>(130,426)</u>	<u>(104,889)</u>	<u>(89,223)</u>	<u>(98,454)</u>	<u>(34,833)</u>	<u>(50,631)</u>	<u>(63,156)</u>	<u>(91,845)</u>	<u>(96,886)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$629,593	\$931,614	\$749,207	\$637,307	\$703,243	\$267,946	\$389,469	\$485,815	\$706,500	\$745,277
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Lake Erie International High School
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - OPEB
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
School Employees Retirement System (SERS)										
Contractually Required Contribution (1)	\$ 1,358	\$ 529	\$ 26	\$ 0	\$ 849	\$ 699	\$ 375	\$ 304	\$ 439	\$ 601
Contributions in Relation to the Contractually Required Contribution	<u>(1,358)</u>	<u>(529)</u>	<u>(26)</u>	<u>0</u>	<u>(849)</u>	<u>(699)</u>	<u>(375)</u>	<u>(304)</u>	<u>(439)</u>	<u>(601)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 204,364	\$ 171,800	\$ 132,093	\$ 138,857	\$ 105,000	\$ 99,185	\$ 50,484	\$ 40,528	\$ 57,772	\$ 74,269
OPEB Contributions as a Percentage of Covered Payroll (1)	0.66%	0.31%	0.02%	0.00%	0.81%	0.70%	0.74%	0.75%	0.76%	0.81%
State Teachers Retirement System (STRS)										
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,679	\$ 3,895	\$ 4,858	\$ 7,065	\$ 7,453
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,679)</u>	<u>(3,895)</u>	<u>(4,858)</u>	<u>(7,065)</u>	<u>(7,453)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 629,593	\$ 931,614	\$ 749,207	\$ 637,307	\$ 703,243	\$ 267,946	\$ 389,469	\$ 485,815	\$ 706,500	\$ 745,277
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information

Lake Erie International High School
Cuyahoga County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2019, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- 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.
- Mortality among service retired members, and beneficiaries was updated to 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 was updated to 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent 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 – STRS

For fiscal year 2018, 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.

Changes in Benefit Terms - STRS

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

Lake Erie International High School
Cuyahoga County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

Note 2 - Net OPEB Liability/(Asset)

Changes in Assumptions – SERS

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

Pre-Medicare	
Fiscal year 2018	7.50 percent initially, decreasing to 4.00 percent
Fiscal year 2019	7.25 percent initially, decreasing to 4.75 percent
Medicare	
Fiscal year 2018	5.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019	5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

Changes in Assumptions – STRS

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

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes in Benefit Terms – STRS

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

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

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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

Lake Erie International High School
Cuyahoga County
11650 Detroit Avenue
Cleveland, Ohio 44124

To the Board of Directors:

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 Lake Erie International High School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 16, 2020.

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 School'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*.

However, we noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 16, 2020.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
January 16, 2020

OHIO AUDITOR OF STATE KEITH FABER



LIFE SKILLS – LAKE ERIE INTERNATIONAL HIGH SCHOOL

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 19, 2020**