



OHIO AUDITOR OF STATE  
**KEITH FABER**





**ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position .....	7
Statement of Revenues, Expenses and Changes in Net Position .....	8
Statement of Cash Flows.....	9
Notes to the Basic Financial Statements .....	10
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability Last Six Fiscal Years.....	30
Schedule of the Academy's Contributions – Pension Last Five Fiscal Years.....	32
Schedule of the Academy's Proportionate Share of the Net OPEB Liability/(Asset) Last Three Fiscal Years .....	35
Schedule of the Academy's Contributions – OPEB Last Five Fiscal Years.....	36
Notes to the Required Supplementary Information.....	38
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	41
Schedule of Findings.....	43

**This Page Intentionally Left Blank.**



Lausche Building, 12<sup>th</sup> Floor  
615 Superior Avenue, NW  
Cleveland, Ohio 44113-1801  
(216) 787-3665 or (800) 626-2297  
NortheastRegion@ohioauditor.gov

## INDEPENDENT AUDITOR'S REPORT

Albert Einstein Academy for Letters, Arts and Sciences  
Cuyahoga County  
25000 Country Club Boulevard, Suite 135  
North Olmsted, Ohio 44070

To the Board of Overseers:

### ***Report on the Financial Statements***

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

---

Efficient • Effective • Transparent

**Opinion**

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

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2020, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

April 14, 2020

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*(Unaudited)*

---

As management of Albert Einstein Academy for Letters, Arts and Sciences (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

### **Financial Highlights**

Key financial highlights for the Academy are as follows:

- In total, Net Position decreased \$330,034 from 2018.
- Total assets increased by \$213,521 during 2019.
- Total liabilities increased by \$344,296 during 2019.

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2019, and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. In a prior period, the Academy also adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

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

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*(Unaudited)*

---

should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of these assets/liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. For STRS, the plan's fiduciary net OPEB position was sufficient to cover the plan's total OPEB liability resulting in a net OPEB asset for fiscal year 2019 that is allocated to each school based on its proportionate share. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability reported by the retirement boards. 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 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 Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB asset/liability, respectively, not accounted for as deferred inflows/outflows.

### **Using this Financial Report**

This report consists of three parts, the required supplementary information, the financial statements, and notes to the financial statements. The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

### **Statement of Net Position**

The Statement of Net Position answers the question of how well the Academy performed financially during 2019. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital, and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.



**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*(Unaudited)*

Table 1 provides a summary of the Academy's Net Position for fiscal year 2019 and fiscal year 2018.

**Table 1**  
**Statement of Net Position**

	2019	2018	Change
<b>Assets</b>			
Current Assets	\$ 1,112,722	\$ 1,074,879	\$ 37,843
Net OPEB Asset	168,669	0	168,669
Capital Assets, Net	235,986	228,977	7,009
<i>Total Assets</i>	<u>1,517,377</u>	<u>1,303,856</u>	<u>213,521</u>
<b>Deferred Outflows</b>			
	<u>2,047,024</u>	<u>1,942,409</u>	<u>104,615</u>
<b>Liabilities</b>			
Current Liabilities	282,885	176,473	106,412
Long Term Liabilities	2,573,917	2,336,033	237,884
<i>Total Liabilities</i>	<u>2,856,802</u>	<u>2,512,506</u>	<u>344,296</u>
<b>Deferred Inflows</b>			
	<u>426,892</u>	<u>123,018</u>	<u>303,874</u>
<b>Net Position</b>			
Investment in Capital Assets	235,986	228,977	7,009
Unrestricted	44,721	381,764	(337,043)
<i>Total Net Position</i>	<u>\$ 280,707</u>	<u>\$ 610,741</u>	<u>\$ (330,034)</u>

Current assets increased in fiscal year 2019 due in part to an increase in grant funding receivable. Current liabilities also increased in fiscal year 2019, primarily due to an increase in accrued wages and benefits and accounts payable. There was a significant change in net pension/OPEB liability/asset for the Academy. These fluctuations are due to changes in the retirement systems unfunded liabilities that are passed through to the Academy's financial statements. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL/NOA and are described in more detail in their respective notes.

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

Table 2 shows the change in Net Position for fiscal years 2019 and 2018.

**Table 2**  
**Change in Net Position**

	2019	2018	Change
Operating Revenue	\$ 3,280,488	\$ 2,432,774	\$ 847,714
Non-Operating Revenue	211,514	118,711	92,803
Total Revenue	<u>3,492,002</u>	<u>2,551,485</u>	<u>940,517</u>
Operating Expenses	<u>3,822,036</u>	<u>1,954,264</u>	<u>1,867,772</u>
Change in Net Position	<u>\$ (330,034)</u>	<u>\$ 597,221</u>	<u>\$ (927,255)</u>

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*(Unaudited)*

---

The Academy's operating and non-operating revenues in 2019 were based on the Academy's full-time equivalent (FTE) and the Academy's federal grant funding received throughout the year. The increase in Academy's revenue was primarily caused by the increase in student enrollment. The increase in operating expense is also related to the increase in enrollment. The changes in operating expenses are primarily associated with changes in the Academy's proportionate share of the net pension liability, net OPEB asset/liability and related accruals. As previously indicated, these items are explained in detail within their respective notes.

**Capital Assets**

Table 3 shows the capital asset balances for fiscal year 2019 compared to 2018.

**Capital Assets (Net of Depreciation)**

	<u>2019</u>	<u>2018</u>
Leasehold Improvements	\$209,901	\$228,977
Vehicles	26,085	0
Total	<u>\$ 235,986</u>	<u>\$ 228,977</u>

For more information on capital assets, see note 8 in the notes to the financial statements.

**Current Financial Issues**

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

**Contacting the Academy's Financial Management**

This financial report is designed to provide our readers with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer at 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Statement of Net Position*  
*June 30, 2019*

**ASSETS**

Current Assets

Cash & Cash Equivalents	\$ 1,052,374
Accounts Receivable	1,648
Grant Funding Receivable	23,588
Prepaid Items	35,112
<i>Total Current Assets</i>	1,112,722

Noncurrent Assets

Net OPEB Asset	168,669
Capital Assets, Net	235,986
<i>Total Noncurrent Assets</i>	404,655

<b>Total Assets</b>	<b>1,517,377</b>
---------------------	------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Pension	1,841,050
OPEB	205,974
<b>Total Deferred Outflows of Resources</b>	<b>2,047,024</b>

**LIABILITIES**

Current Liabilities

Accounts Payable	49,535
Accrued Wages and Benefits	223,360
Pension & OPEB Payable	9,990
<i>Total Current Liabilities</i>	282,885

Long Term Liabilities

Net Pension Liability	2,486,297
Net OPEB Liability	87,620
<i>Total Long Term Liabilities</i>	2,573,917

<b>Total Liabilities</b>	<b>2,856,802</b>
--------------------------	------------------

**DEFERRED INFLOWS OF RESOURCES**

Pension	159,965
OPEB	266,927
<b>Total Deferred Inflows of Resources</b>	<b>426,892</b>

**NET POSITION**

Investment in Capital Assets	235,986
Unrestricted	44,721
<b>Total Net Position</b>	<b>\$ 280,707</b>

See accompanying notes to the basic financial statements.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Net Position*  
*For the Fiscal Year Ended June 30, 2019*

**OPERATING REVENUES**

Foundation Payments	\$	3,141,977
Casino Revenue		15,843
Facilities Funding		64,525
Other Operating Revenue		58,143
		58,143

<b>Total Operating Revenues</b>		3,280,488
---------------------------------	--	-----------

**OPERATING EXPENSES**

Salaries and Wages		1,912,919
Fringe Benefits		694,275
Purchased Services		1,027,964
Supplies and Materials		130,354
Depreciation		19,076
Other Expenses		37,448
		37,448

<b>Total Operating Expenses</b>		3,822,036
---------------------------------	--	-----------

<b>Operating Income (Loss)</b>		(541,548)
--------------------------------	--	-----------

**NON-OPERATING REVENUES**

Federal and State Grants		210,938
Interest Income		576
		576

<b>Total Non-Operating Revenues</b>		211,514
-------------------------------------	--	---------

<b>Change in Net Position</b>		(330,034)
-------------------------------	--	-----------

<b>Net Position Beginning of Year</b>		610,741
---------------------------------------	--	---------

<b>Net Position End of Year</b>		\$ 280,707
---------------------------------	--	------------

See accompanying notes to the basic financial statements.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2019

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received From State Aid	\$ 3,222,345
Cash Received Other Operating Sources	58,143
Cash Payments for Wages and Fringe Benefits	(2,269,889)
Cash Payments to Suppliers for Goods and Services	(1,122,324)
Other Cash Payments	(37,489)
	(149,214)
Net Cash Used For Operating Activities	(149,214)

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Cash Payments For Capital Acquisitions	(26,085)
	(26,085)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received From Grant Programs	196,276
	196,276
Net Cash Received From Noncapital Financing Activities	196,276

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash Received from Interest	576
	576
Net Increase in Cash and Cash Equivalents	21,553
Cash and Cash Equivalents at Beginning of Year	1,030,821
	1,030,821
Cash and Cash Equivalents at End of Year	\$ 1,052,374

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (541,548)
-------------------------	--------------

**ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	19,076
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:	
Accounts Receivable	(1,587)
Prepays	(41)
Deferred Outflows of Resources	(104,615)
Deferred Inflows of Resources	303,874
Net OPEB Asset	(168,669)
Net Pension/OPEB Liability	237,884
Accounts Payable	37,581
Pension & OPEB Payable	22,263
Accrued Wages and Benefits	46,568
	46,568
Total Adjustments	392,334
Net Cash Used For Operating Activities	\$ (149,214)

See accompanying notes to the basic financial statements.

**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

**NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

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

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

The Academy operates under the direction of a five-member Board of Overseers. The Board of Overseers is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Overseers controls the Academy's one instructional/support facility which provide services to 331 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Basis of Presentation***

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

***Measurement Focus***

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

**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

***Basis of Accounting***

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

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

***Budgetary Process***

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

***Cash and Cash Equivalents***

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds. All highly liquid investments, with purchased maturities of three months or less are considered to be cash equivalents.

***Capital Assets***

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

All reported capital assets except land are depreciated. Improvements are depreciated, utilizing the straight-line method, over the remaining useful lives of the related capital assets. Useful lives for assets range from 5 to 40 years, and is determined based on actual experience or engineering evidence and practice.

***Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets.

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

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of reporting in the financial statements and accompanying notes. Actual results may differ from those estimates.

***Pensions and Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB asset/liability, deferred outflows of resources and deferred inflows of resources related to 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.



**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

***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 Academy, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 10 and 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 10 and 11).

**NOTE 3 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

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

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

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

**NOTE 4 - DEPOSITS**

Protection of the Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions 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.

**NOTE 5 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the Academy contracted with Great American Insurance Company for general liability, property insurance, educational errors and omissions insurance.

Coverages are as follows:

Employers' Liability	\$ 1,000,000
Automobile Liability	1,000,000
Employee Benefits	1,000,000

**Albert Einstein Academy for Letters, Arts and Sciences  
Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded commercial coverage in the past three years, there has been no significant reduction in coverage from the prior year. The Academy pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**NOTE 6 - PURCHASED SERVICES**

During the fiscal year ended June 30, 2019, other purchased service expenses for services rendered by various vendors were as follows:

<b>Purchased Services</b>	<b>Amount</b>
<b>Direct Expenses:</b>	
Facilities services	\$ 596,523
Professional services	397,833
Contracted services	2,311
Other	31,297
<b>Total</b>	<b>\$ 1,027,964</b>

**NOTE 7 - SPONSORSHIP SERVICES**

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

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

The Academy shall pay to the Sponsor a sponsorship fee equal to 3% of the total state foundation payment, based upon student enrollment, received by the Academy. In fiscal year 2019, the Academy paid \$93,635 for sponsorship services.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

**NOTE 8 – CAPITAL ASSETS**

For the fiscal year ended June 30, 2019, the Academy’s capital assets consisted of the following:

	Balance 6/30/2018	Additions	Deletions	Balance 6/30/2019
<b><i>Capital Assets, Being Depreciated:</i></b>				
Leasehold Improvements	\$ 286,129	\$ 0	\$ 0	\$ 286,129
Vehicles	0	26,085	0	26,085
<b><i>Total Capital Assets, Being Depreciated</i></b>	<b>286,129</b>	<b>26,085</b>	<b>0</b>	<b>312,214</b>
<b><i>Less Accumulated Depreciation:</i></b>				
Leasehold Improvements	(57,152)	(19,076)	0	(76,228)
Vehicles	0	0	0	0
<b><i>Total Accumulated Depreciation</i></b>	<b>(57,152)</b>	<b>(19,076)</b>	<b>0</b>	<b>(76,228)</b>
<b><i>Capital Assets, Net</i></b>	<b>\$ 228,977</b>	<b>\$ 7,009</b>	<b>\$ 0</b>	<b>\$ 235,986</b>

**NOTE 9 – OPERATING LEASE**

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

Also on May 7, 2013 the Academy entered into a sublease agreement with NCOESC under the same terms and conditions of the lease agreement noted above. Payments during fiscal year 2019 totaled \$268,697.

On February 28, 2017, the Academy entered into a lease agreement with Drake Elementary, LLC for space located at 20566 Albion Road, Strongsville, Ohio. The term of the lease for 60 months commenced on July 1, 2017 and continues through July 31, 2022. The Academy paid \$13,206 per month in rent. Payments during fiscal year 2019 totaled \$158,477.

**NOTE 10 - 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.

**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

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

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

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

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

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

Plan Description – Academy 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

---

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

The Academy's contractually required contribution to SERS was \$22,481 for fiscal year 2019.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – Academy 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](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

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

The Academy's contractually required contribution to STRS was \$239,215 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 Academy'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00311390%	0.01049656%	
Prior Measurement Date	<u>0.00000000%</u>	<u>0.00844649%</u>	
Change in Proportionate Share	<u>0.00311390%</u>	<u>0.00205007%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 178,339	\$ 2,307,958	\$ 2,486,297
Pension Expense	\$ 80,637	\$ 782,265	\$ 862,902

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Academy's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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 Academy 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>
<b>Deferred Outflows of Resources</b>			
Differences between Expected and			
Actual Experience	\$ 9,780	\$ 53,274	\$ 63,054
Changes of Assumptions	4,026	409,013	413,039
Changes in Proportion and Differences between			
Academy Contributions and Proportionate			
Share of Contributions	102,367	1,000,894	1,103,261
Academy Contributions Subsequent to the			
Measurement Date	<u>22,481</u>	<u>239,215</u>	<u>261,696</u>
<b>Total Deferred Outflows of Resources</b>	<u><u>\$ 138,654</u></u>	<u><u>\$ 1,702,396</u></u>	<u><u>\$ 1,841,050</u></u>
<b>Deferred Inflows of Resources</b>			
Differences between Expected and			
Actual Experience	\$ 0	\$ 15,073	\$ 15,073
Net Difference between Projected and			
Actual Earnings on Pension Plan Investments	<u>4,942</u>	<u>139,950</u>	<u>144,892</u>
<b>Total Deferred Inflows of Resources</b>	<u><u>\$ 4,942</u></u>	<u><u>\$ 155,023</u></u>	<u><u>\$ 159,965</u></u>

\$261,696 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ 79,990	\$ 761,573	\$ 841,563
2021	38,611	366,681	405,292
2022	(5,853)	134,642	128,789
2023	<u>(1,517)</u>	<u>45,262</u>	<u>43,745</u>
	<u><u>\$ 111,231</u></u>	<u><u>\$ 1,308,158</u></u>	<u><u>\$ 1,419,389</u></u>

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment 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.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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

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

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

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

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

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

<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>	



**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

**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 Academy'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 Academy's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Academy'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>
Academy's Proportionate Share of the Net Pension Liability	\$ 251,204	\$ 178,339	\$ 117,247

**Actuarial Assumptions - STRS**

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

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

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

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

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

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

<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	1.00	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 Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Academy's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the Academy'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:

	1% Decrease	Current Discount Rate	1% Increase
Academy's Proportionate Share of the Net Pension Liability	\$ 3,370,469	\$ 2,307,958	\$ 1,408,687

**NOTE 11 - DEFINED BENEFIT OPEB 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.

**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

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

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

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

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 *pension and OPEB payable*.

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

Health Care Plan Description – The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage 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](http://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.

**Albert Einstein Academy for Letters, Arts and Sciences**

**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

---

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 Academy's surcharge obligation was \$2,006.

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 Academy's contractually required contribution to SERS was \$2,839 for fiscal year 2019. Of this amount \$2,006 is reported as pension and OPEB payable.

***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](http://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 Academy's proportion of the net OPEB asset/liability was based on the Academy'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:

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

	SERS	STRS	Total
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.00315830%	0.01049656%	
Prior Measurement Date	0.00000000%	0.00844649%	
Change in Proportionate Share	<u>0.00315830%</u>	<u>0.00205007%</u>	
Proportionate Share of the Net			
OPEB Liability/(Asset)	\$ 87,620	\$ (168,669)	\$ (81,049)
OPEB Expense	\$ 17,717	\$ (347,610)	\$ (329,893)

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

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 1,431	\$ 19,701	\$ 21,132
Changes in Proportion and Differences between Academy Contributions and Proportionate Share of Contributions	78,680	103,323	182,003
Academy Contributions Subsequent to the Measurement Date	<u>2,839</u>	<u>0</u>	<u>2,839</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 82,950</u>	<u>\$ 123,024</u>	<u>\$ 205,974</u>
<b>Deferred Inflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 0	\$ 9,827	\$ 9,827
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	131	19,270	19,401
Changes of Assumptions	<u>7,873</u>	<u>229,826</u>	<u>237,699</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 8,004</u>	<u>\$ 258,923</u>	<u>\$ 266,927</u>

\$2,839 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 11,340	\$ (24,599)	\$ (13,259)
2021	12,038	(24,599)	(12,561)
2022	14,254	(24,600)	(10,346)
2023	14,311	(20,224)	(5,913)
2024	14,301	(18,692)	(4,391)
Thereafter	<u>5,863</u>	<u>(23,185)</u>	<u>(17,322)</u>
	<u>\$ 72,107</u>	<u>\$ (135,899)</u>	<u>\$ (63,792)</u>

***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:

**Albert Einstein Academy for Letters, Arts and Sciences  
Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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 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:

<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	<u>10.00</u>	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.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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 Academy'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.

	1% Decrease	Current Discount Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	\$ 106,320	\$ 87,620	\$ 72,813
	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability	\$ 70,693	\$ 87,620	\$ 110,034

***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:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

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

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

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

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

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

**Sensitivity of the Academy'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 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.

	1% Decrease	Current Discount Rate	1% Increase
	Academy's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (144,565)	\$ (168,669)
	1% Decrease	Current Trend Rate	1% Increase
Academy's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (187,784)	\$ (168,669)	\$ (149,257)



**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2019*

---

**NOTE 12 - CONTINGENCIES**

***Grants***

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

***Enrollment FTE***

Academy 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 has performed such a review on the Academy for fiscal year 2019.

As of the date of this report, all ODE adjustments have been completed.

In addition, the Academy's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 have been finalized.

***Litigation***

The Academy is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Academy's Proportionate Share of the Net Pension Liability*  
*Last Six Fiscal Years (1)*

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b><i>School Employees Retirement System (SERS)</i></b>				
Academy's Proportion of the Net Pension Liability	0.00311390%	0.00000000%	0.00000000%	0.00000000%
Academy's Proportionate Share of the Net Pension Liability	\$ 178,339	\$ 0	\$ 0	\$ 0
Academy's Covered Payroll	\$ 100,215	\$ 0	\$ 0	\$ 0
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	177.96%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%
<b><i>State Teachers Retirement System (STRS)</i></b>				
Academy's Proportion of the Net Pension Liability	0.01049656%	0.00844649%	0.00765413%	0.00577195%
Academy's Proportionate Share of the Net Pension Liability	\$ 2,307,958	\$ 2,006,482	\$ 2,562,068	\$ 1,595,198
Academy's Covered Payroll	\$ 1,162,736	\$ 911,743	\$ 986,579	\$ 718,236
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	198.49%	220.07%	259.69%	222.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%	66.80%	72.10%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

<u>2015</u>	<u>2014</u>
0.00000000%	0.00000000%
\$ 0	\$ 0
\$ 0	\$ 0
0.00%	0.00%
71.70%	65.52%

0.00000000%	0.00000000%
\$ 0	\$ 0
\$ 0	\$ 0
0.00%	0.00%
74.70%	69.30%

See accompanying notes to the required supplementary information.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Academy's Contributions - Pension*  
*Last Five Fiscal Years (1)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><i>School Employees Retirement System (SERS)</i></b>			
Contractually Required Contribution	\$ 22,481	\$ 13,529	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>(22,481)</u>	<u>(13,529)</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 166,526	\$ 100,215	\$ 0
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%
<b><i>State Teachers Retirement System (STRS)</i></b>			
Contractually Required Contribution	\$ 239,215	\$ 162,783	\$ 127,644
Contributions in Relation to the Contractually Required Contribution	<u>(239,215)</u>	<u>(162,783)</u>	<u>(127,644)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 1,708,679	\$ 1,162,736	\$ 911,743
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%

(1) Information prior to 2015 is unavailable

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 0	\$ 0
<u>0</u>	<u>0</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 0	\$ 0
14.00%	13.18%
\$ 138,121	\$ 100,553
<u>(138,121)</u>	<u>(100,553)</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 986,579	\$ 718,236
14.00%	14.00%

See accompanying notes to the required supplementary information.

*This page intentionally left blank.*

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Academy's Proportionate Share of the Net OPEB Liability/(Asset)*  
*Last Three Fiscal Years (1)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><i>School Employees Retirement System (SERS)</i></b>			
Academy's Proportion of the Net OPEB Liability	0.00315830%	0.00000000%	0.00000000%
Academy's Proportionate Share of the Net OPEB Liability	\$ 87,620	\$ 0	\$ 0
Academy's Covered Payroll	\$ 100,215	\$ 0	\$ 0
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	87.43%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%
<b><i>State Teachers Retirement System (STRS)</i></b>			
Academy's Proportion of the Net OPEB Liability/(Asset)	0.01049656%	0.00844649%	0.00765413%
Academy's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (168,669)	\$ 329,551	\$ 409,345
Academy's Covered Payroll	\$ 1,162,736	\$ 911,743	\$ 986,579
Academy's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-14.51%	36.15%	41.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Academy's Contributions - OPEB*  
*Last Five Fiscal Years (2)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><i>School Employees Retirement System (SERS)</i></b>			
Contractually Required Contribution (1)	\$ 2,839	\$ 2,204	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>(2,839)</u>	<u>(2,204)</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 166,526	\$ 100,215	\$ 0
OPEB Contributions as a Percentage of Covered Payroll (1)	1.70%	2.20%	0.00%
<b><i>State Teachers Retirement System (STRS)</i></b>			
Contractually Required Contribution	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Academy's Covered Payroll	\$ 1,708,679	\$ 1,162,736	\$ 911,743
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

(1) Includes surcharge

(2) Information prior to 2015 is not available

See accompanying notes to the required supplementary information.



<u>2016</u>	<u>2015</u>
\$ 0	\$ 0
<u>0</u>	<u>0</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 0	\$ 0
0.00%	0.00%
\$ 0	\$ 0
<u>0</u>	<u>0</u>
<u>\$ 0</u>	<u>\$ 0</u>
\$ 986,579	\$ 718,236
0.00%	0.00%

See accompanying notes to the required supplementary information.

**Albert Einstein Academy for Letters, Arts and Sciences  
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 2017, 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.

**Note 2 - Net OPEB Liability**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62

**Albert Einstein Academy for Letters, Arts and Sciences**  
**Cuyahoga County, Ohio**

*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

---

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.

**This page intentionally left blank.**

# OHIO AUDITOR OF STATE KEITH FABER



Lausche Building, 12<sup>th</sup> Floor  
615 Superior Avenue, NW  
Cleveland, Ohio 44113-1801  
(216) 787-3665 or (800) 626-2297  
NortheastRegion@ohioauditor.gov

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

Albert Einstein Academy for Letters, Arts and Sciences  
Cuyahoga County  
25000 Country Club Boulevard, Suite 135  
North Olmsted, Ohio 44070

To the Board of Overseers:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Albert Einstein Academy for Letters, Arts and Sciences, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 14, 2020.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Academy's Response to Finding***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

April 14, 2020

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2019

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

None

**2. OTHER – FINDING FOR RECOVERY**

We identified the following other issue related to Findings for Recovery. This issue did not impact our GAGAS report.

*State ex rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

This Bulletin further indicates the Auditor of State’s Office does not view the expenditure of public funds for personal use as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect. In addition, Albert Einstein Academy’s Board credit card policy indicates personal purchases are prohibited.

The School provided a credit card to the Superintendent, Bruce Thomas, for business-related purchases.

Credit card review identified improper, personal charges to the School’s credit card associated with the Superintendent’s travel to a conference in New Mexico. The Superintendent was scheduled to attend a conference from October 21, 2019 to October 23, 2019, however travel charges appeared on the credit card statement prior to the start of the conference amounting to \$906. This is comprised of the following:

- Airport parking on October 18, 2019 for \$48;
- A rental car at a daily rate of \$175 on October 19, 2019, plus a damage fee of \$154 upon returning the car;
- Hotel room charges for October 18, 2019 and October 19, 2019 totaling \$392;
- Meals on October 18, 2019 and October 19, 2019 with no documented business purpose of \$137.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Bruce Thomas in the amount of \$906 and in favor of the School’s operating fund.

Mr. Thomas repaid the full balance of \$906 on March 25, 2020 by check.

**Officials’ Response:**

The Superintendent and the Treasurer have reviewed the finding and the circumstances leading to the finding and agree that the oversight leading to the recovery did occur. Once the oversight was brought to our attention, prompt restitution to the school occurred. An updated travel policy will be presented to the Board, which will require Board pre-authorization of all travel and travel reimbursement.

**This page intentionally left blank.**



# OHIO AUDITOR OF STATE KEITH FABER



**ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES**

**CUYAHOGA COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 12, 2020**