



OHIO AUDITOR OF STATE  
**KEITH FABER**





**iLEAD SPRING MEADOWS  
LUCAS COUNTY  
JUNE 30, 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

iLEAD Spring Meadows  
Lucas County  
1615 Timberwolf Drive  
Holland, Ohio 43528

To the Governing Board:

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

We have audited the accompanying financial statements of iLEAD Spring Meadows , Lucas County, Ohio (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

Management is responsible for 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of iLEAD Spring Meadows, Lucas 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.

***Emphasis of Matters***

As discussed in Note 17 to the financial statements, the School has suffered recurring losses from operations and has a net deficiency of \$1,746,221. Note 17 also describes management's evaluation of the events and conditions and their plan to mitigate these matters. We did not modify our opinion regarding this matter.

As discussed in Note 18 to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2020, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 School's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

May 26, 2020

## **iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

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

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

#### **FINANCIAL HIGHLIGHTS**

Key Financial Highlights for the School for the 2018-19 school year are as follows:

- Total Assets decreased by \$1,508.
- Total Liabilities increased by \$1,001,432.
- Total Net Position decreased by \$686,423.
- Total Operating and Non-Operating revenues were \$1,826,165. Total expenses were \$2,512,588.

#### **USING THIS ANNUAL REPORT**

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

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2019. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

The School uses enterprise presentation for all of its activities.

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (Continued)**

Table 1 provides a summary of the School's net position for fiscal years 2019 and 2018

**Table 1  
Statement of Net Position**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current Assets	\$ 45,904	\$ 34,785
Noncurrent Assets	50,565	-
Capital Assets, Net	34,785	97,977
<b>Total Assets</b>	<b>131,254</b>	<b>132,762</b>
<b>Deferred Outflows of Resources</b>	<b>1,245,955</b>	<b>810,237</b>
<b>Liabilities</b>		
Current Liabilities	1,611,953	1,138,796
NonCurrent Liabilities	1,361,628	833,353
<b>Total Liabilities</b>	<b>2,973,581</b>	<b>1,972,149</b>
<b>Deferred Inflows of Resources</b>	<b>149,849</b>	<b>30,648</b>
<b>Net Position</b>		
Net Investment in Capital Assets	34,785	97,977
Unrestricted (Deficit)	(1,781,006)	(1,157,775)
<b>Total Net Position (Deficit)</b>	<b>\$ (1,746,221)</b>	<b>\$ (1,059,798)</b>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019, the School's net position totaled \$(1,746,221).

Current assets represent cash and cash equivalents, intergovernmental receivables, other assets. Current liabilities represent accounts payable, accrued expenses, withholdings payable, advances payable, current portion of long-term debt, and capital lease payables.



**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (Continued)**

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

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB asset/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 School's proportionate share of each plan's collective:

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

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

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (Continued)**

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB asset/liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

The increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and net pension liability/net OPEB asset/liability and are described in more detail in their respective footnotes.

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**USING THIS ANNUAL REPORT (Continued)**

**Statement of Revenues, Expenses and Change in Net Position** - Table 2 shows the change in Net Position for fiscal years 2019 and 2018 as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**Table 2  
Change in Net Position**

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
State Aid	\$ 1,634,955	\$ 1,233,174
Other	35,878	32,356
<b>Total Operating Revenues</b>	<b>1,670,833</b>	<b>1,265,530</b>
<b>Operating Expenses</b>		
Salaries	792,564	563,658
Fringe Benefits	204,116	135,012
Fringe Benefits - GASB 68 & 75	205,264	(95,992)
Purchased Services	1,150,365	1,173,790
Materials and Supplies	42,594	27,564
Depreciation	63,192	63,192
Other	37,880	32,516
<b>Total Operating Expenses</b>	<b>2,495,975</b>	<b>1,899,740</b>
<b>Operating (Loss)</b>	<b>(825,142)</b>	<b>(634,210)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Federal Grants	128,792	128,790
Contributions and Donations	-	11,726
Other Grants	26,540	600
Interest Expense	(16,613)	(22,161)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>138,719</b>	<b>118,955</b>
<b>Change in Net Position</b>	<b>(686,423)</b>	<b>(515,255)</b>
<b>Net position (deficit) at beginning of the year</b>	<b>(1,059,798)</b>	<b>(544,543)</b>
<b>Net position (deficit) at end of the year</b>	<b>\$ (1,746,221)</b>	<b>\$ (1,059,798)</b>

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

During the fiscal year State Aid increased from the prior year by \$401,781. Operating Expenses increased over the prior year by \$596,235. The primary reason for the increase is due to the significant change in GASB 68 and 75.

**BUDGETING HIGHLIGHTS**

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

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, semi-annually.

**CAPITAL ASSETS**

At fiscal year end, the School's net capital asset balance was \$34,785. This balance includes zero current year additions offset by current year depreciation of \$63,192. For more information on capital assets, see Note 5 of the Basic Financial Statements.

**CURRENT FINANCIAL ISSUES**

The School is a community School and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue. In 2019, the State raised the base per pupil funding to \$6,020, which is up from \$6,010 in the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be \$200 per pupil.

The full-time equivalent enrollment of the School for the year ended June 30, 2019 was 199 compared to 152 students at the end of 2018.

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

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact the School's Fiscal Officer, C. David Massa, CPA, of Massa Financial Solutions, LLC, 1615 Timberwolf Drive, Holland, Ohio 43528.

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

**Statement of Net Position  
At June 30, 2019**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$	1,828
Intergovernmental Receivable		13,489
Other Assets		30,587
<b>Total Current Assets</b>		45,904

**Noncurrent Assets:**

OPEB Asset		50,565
Capital Assets, net of Accumulated Depreciation		34,785
<b>Total Noncurrent Assets</b>		85,350

<b>Total Assets</b>		131,254
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**Deferred Outflows of Resources**

Pension		981,904
OPEB		264,051
<b>Total Deferred Outflows of Resources</b>		1,245,955

**Liabilities:**

**Current Liabilities:**

Accounts Payable, Trade		51,666
Withholdings Payable		11,222
Accrued Expenses		624,268
Capital Lease Payable		36,246
Advances Payable		649,701
Current Portion of Long-Term Debt		238,850
<b>Total Current Liabilities</b>		1,611,953

**Noncurrent Liabilities:**

Net Pension Liability		1,044,997
Net OPEB Liability		174,829
Noncurrent Portion of Long-term Debt		141,802
<b>Total Noncurrent Liabilities</b>		1,361,628

<b>Total Liabilities</b>		2,973,581
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**Deferred Inflows of Resources**

Pension		56,260
OPEB		93,589
<b>Total Deferred Inflows of Resources</b>		149,849

**Net Position:**

Net Investment in Capital Assets		34,785
Unrestricted Net Position (Deficit)		(1,781,006)
<b>Total Net Position (Deficit)</b>		\$ (1,746,221)

See Accompanying Notes to the Basic Financial Statements

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2019**

<b>Operating Revenues:</b>	
State Aid	\$ 1,634,955
Miscellaneous	35,878
<b>Total Operating Revenues</b>	<u>1,670,833</u>
<b>Operating Expenses:</b>	
Salaries	792,564
Fringe Benefits	409,380
Purchased Services	1,150,365
Depreciation	63,192
Supplies	42,594
Other Operating Expenses	37,880
<b>Total Operating Expenses</b>	<u>2,495,975</u>
<b>Operating Loss</b>	<u>(825,142)</u>
<b>Non-Operating Revenues and (Expenses):</b>	
Federal Grants	128,792
Other Grants	26,540
Interest Expense	(16,613)
<b>Net Non-operating Revenues and (Expenses)</b>	<u>138,719</u>
<b>Change in Net Position</b>	(686,423)
<b>Net Position (Deficit) Beginning of Year</b>	<u>(1,059,798)</u>
<b>Net Position (Deficit) End of Year</b>	<u>\$ (1,746,221)</u>

See Accompanying Notes to the Basic Financial Statements

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

State Aid Receipts	\$ 1,625,949
Other Operating Receipts	35,878
Operating Cash Advances from ISD	403,000
Cash Payments to Suppliers for Goods and Services	(1,273,124)
Cash Payments to Employees for Services	(746,659)
Cash Payments for Employee Benefits	(202,844)
Net Cash Used For Operating Activities	<u>(157,800)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Other Grant Receipts	26,540
Federal and State Grant Receipts	131,900
Net Cash Provided By Noncapital Financing Activities	<u>158,440</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Interest Payments	<u>(16,613)</u>
Net Decrease in Cash and Cash Equivalents	(15,973)
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<u>17,801</u>
<b>Cash and Cash Equivalents - Ending of the Year</b>	<u>\$ 1,828</u>

See Accompanying Notes to the Basic Financial Statements

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2019  
(Continued)**

**Reconciliation of Operating Loss to Net Cash  
Used For Operating Activities:**

Operating Loss \$ (825,142)

**Adjustments to Reconcile Operating Loss to Net Cash  
Used For Operating Activities:**

Depreciation 63,192

**Changes in Assets, Liabilities, and Deferred Inflows and Outflows:**

Decrease in Receivables (30,201)

Decrease in Deferred Outflows (490,283)

Increase in Deferred Inflows 119,201

Increase in Net Pension Liability 572,346

Increase in Due to ISD 616,244

Decrease in Highmark Payable (163,485)

Increase in Withholding Payable 5,272

Decrease in Capital Lease Payable (44,404)

Increase in Accounts Payable, Trade 12,043

Increase in Accrued Expenses 7,417

**Net Cash Used For Operating Activities** \$ (157,800)

See Accompanying Notes to the Basic Financial Statements



## iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO

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

#### **NOTE 1 - DESCRIPTION OF THE ENTITY**

iLEAD Spring Meadows, Lucas County, Ohio (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to improve the lives of its students by providing authentic learning experiences in a collaborative, nurturing environment that will build a foundation for student's success in school, at future work and in life. The School operates on a foundation, which fosters character building for all students, parents and staff members. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Ohio Council of Community Schools (OCCS) (the Sponsor) for a five-year period commencing on July 1, 2016. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

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

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

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

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

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

ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and Cash Equivalents** - Cash received by the School is reflected as "Cash and Cash Equivalents" on the Statement of Net Position. The School did not have any investments during the period ended June 30, 2019.

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

**Capital Assets and Depreciation** - Capital assets are capitalized at cost. Donated capital assets are valued at acquisition cost. Please refer to paragraph 79 of GASB 72. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net position. Capital assets were \$34,785 as of June 30, 2019, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

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

The School's policy for asset capitalization threshold is \$1,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompanying statement of net position.

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

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

Under the above programs the School recorded \$1,634,955 this fiscal year from the State Foundation Program and Casino Tax Revenues and \$128,792 from Federal Grants.

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

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

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accrued Liabilities** - Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of Accounts Payable, Accrued Expenses, Advances Payable, Capital Lease Payable, Withholding Payable, and Current Portion of Long-Term Debt totaling \$1,611,953 at June 30, 2019.

**Exchange and Non-Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

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

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

**Deferred Inflows and Deferred Outflows of Resources** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 9 and 10)

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

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 3 - CASH AND CASH EQUIVALENTS**

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

The School maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2019, the book amount of the School's deposits was \$1,828 and the bank balance was \$3,117.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2019, none of the bank balance was exposed to custodial credit risk.

**NOTE 4 - RECEIVABLES**

The School has receivables Intergovernmental receivables totaling \$13,489 at June 30, 2019. These receivables represented monies due to the School, but not received as of June 30, 2019. All amounts are expected to be collected within one year.

**NOTE 5 - CAPITAL ASSETS**

For the period ending June 30, 2019, the School's capital assets consisted of the following:

	<u>Balance</u> <u>6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/19</u>
Capital Assets:				
Furniture & Equipment	\$ 72,403	\$ -	\$ -	\$ 72,403
Computers & Software	<u>146,132</u>	<u>-</u>	<u>-</u>	<u>146,132</u>
Total Capital Assets	<u>218,535</u>	<u>-</u>	<u>-</u>	<u>218,535</u>
Less Accumulated Depreciation:				
Furniture & Equipment	(23,135)	(14,481)	-	(37,616)
Computer Equipment	<u>(97,423)</u>	<u>(48,711)</u>	<u>-</u>	<u>(146,134)</u>
Total Accumulated Depreciation	<u>(120,558)</u>	<u>(63,192)</u>	<u>-</u>	<u>(183,750)</u>
Total Capital Assets, Net	<u>\$ 97,977</u>	<u>\$ (63,192)</u>	<u>\$ -</u>	<u>\$ 34,785</u>

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 6 - ADVANCES PAYABLE**

During fiscal year 2019, the School received working capital advances from iLEAD Schools Development, LLC. The total amount of advances outstanding at June 30, 2019 was \$649,701. The activity for the year is reflected as follows:

Balance 6/30/2018	Additions	Reductions	Balance 6/30/2019
\$ 246,701	\$ 403,000	\$ -	\$ 649,701

**NOTE 7 - LONG-TERM OBLIGATIONS**

The changes in the School's long-term obligations during fiscal year 2019 were as follows:

	Balance 6/30/2018	Additions	Reductions	Balance 6/30/2019	Due Within the Year
Net Pension Liability	\$ 524,406	\$ 520,591	\$ -	\$ 1,044,997	\$ -
Net OPEB Liability	123,074	51,755	-	174,829	-
Total Net Pension/OPEB Liabilities	647,480	572,346	-	1,219,826	-
Highmark Development	544,138	-	(163,486)	380,652	238,850
Total Long-Term Obligations	\$ 1,191,618	\$ 572,346	\$ (163,486)	\$ 1,770,478	\$ 238,850

The Highmark – Term Loan represents the portion of accrued rent sub-lease and forbearance payments due as of June 30, 2018. See Note 15 for further description of this amount and for future minimum payments.

**NOTE 8 - RISK MANAGEMENT**

**Property & Liability** - The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2019, the School contracted with United Educators Insurance Company for nonprofits and maintained general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate. The School also maintained umbrella liability insurance through United Educators Insurance Company with a \$25,000,000 single occurrence limit and a \$25,000,000 annual aggregate. There were no settlements in excess of insurance coverage over the past three years, nor has insurance coverage significantly reduced from the prior year.

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

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 8 - RISK MANAGEMENT (continued)**

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS**

***Net Pension Liability***

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

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

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

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

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

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

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

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)**

Age and service requirements for retirement are as follows:

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

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

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

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

The School's contractually required contribution to SERS was \$35,573 for fiscal year 2019.

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

**Plan Description** – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, Ohio 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.

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

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

The School's contractually required contribution to STRS was \$72,392 for fiscal year 2019.

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

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



**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.00210700%	0.00167760%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.00616550%</u>	<u>0.00314669%</u>	
Change in Proportionate Share	<u>0.00405850%</u>	<u>0.00146909%</u>	
Proportionate Share of the Net Pension			
Liability	\$353,110	\$691,887	\$1,044,997
Pension Expense	\$148,827	\$217,124	\$365,951

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and			
actual experience	\$19,364	\$15,971	\$35,335
Changes of assumptions	7,974	122,615	130,589
Net difference between projected and			
actual earnings on pension plan investments	-	-	-
Changes in proportion and differences			
between contributions and proportionate			
share of contributions	193,988	514,027	708,015

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

School contributions subsequent to the

measurement date	<u>35,573</u>	<u>72,392</u>	<u>107,965</u>
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Total Deferred Outflows of Resources	<u>\$256,899</u>	<u>\$725,005</u>	<u>\$981,904</u>
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**Deferred Inflows of Resources**

Differences between expected and

actual experience	\$ -	\$4,519	\$4,519
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Changes of assumptions	-	-	-
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Net difference between projected and actual earnings on pension plan investments	9,785	41,956	51,741
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Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>-</u>	<u>-</u>
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Total Deferred Inflows of Resources	<u>\$9,785</u>	<u>\$46,475</u>	<u>\$56,260</u>
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\$107,965 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ 147,568	\$ 211,329	\$ 358,897
2021	78,559	191,891	270,450
2022	(11,587)	157,189	145,602
2023	<u>(2,999)</u>	<u>45,729</u>	<u>42,730</u>
Total	<u>\$ 211,541</u>	<u>\$ 606,138</u>	<u>\$ 817,679</u>

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***Actuarial Assumptions - SERS***

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

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

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

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

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

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

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

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	\$497,382	\$353,110	\$232,147

**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

ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO

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

**NOTE 9 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

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

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

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

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

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

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

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	\$1,010,409	\$691,887	\$422,300

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 - 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.

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

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

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

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

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

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

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 - DEFINED BENEFIT OPEB PLANS (continued)**

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School's surcharge obligation was \$5,067. The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$6,385 for fiscal year 2019.

***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 asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB asset/liability was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

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

**NOTE 10 - DEFINED BENEFIT OPEB PLANS (continued)**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.00214700%	0.00167760%	
Proportion of the Net OPEB Liability/asset			
Current Measurement Date	<u>0.00630180%</u>	<u>0.00314669%</u>	
Change in Proportionate Share	<u>0.00415480%</u>	<u>0.00146909%</u>	
Proportionate Share of the Net OPEB			
Liability/(asset)	\$174,829	\$(50,565)	\$124,264
OPEB Expense	\$41,793	\$(88,130)	\$(46,337)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and			
actual experience	\$2,854	\$5,906	\$8,760
Changes of assumptions	-	-	-
Net difference between projected and			
actual earnings on OPEB plan investments	-	-	-
Changes in proportion and differences			
between contributions and proportionate			
share of contributions	132,471	116,435	248,906
School contributions subsequent to the			
measurement date	<u>6,385</u>	<u>-</u>	<u>6,385</u>
Total Deferred Outflows of Resources	<u>\$141,710</u>	<u>\$122,341</u>	<u>\$264,051</u>



**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 - DEFINED BENEFIT OPEB PLANS (continued)**

**Deferred Inflows of Resources**

Differences between expected			
and actual experience	\$ -	\$2,946	\$2,946
Changes of assumptions	15,707	68,899	84,606
Net difference between projected and			
actual earnings on OPEB plan investments	261	5,776	6,037
Changes in proportion and differences			
between contributions and proportionate			
share of contributions	<u>-</u>	<u>-</u>	<u>-</u>
 Total Deferred Inflows of Resources	 <u>\$15,968</u>	 <u>\$77,621</u>	 <u>\$93,589</u>

\$6,385 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$29,074	\$8,703	\$37,777
2021	26,563	8,703	35,266
2022	18,615	8,704	27,319
2023	18,726	10,014	28,740
2024	18,707	10,473	29,180
Thereafter	<u>7,672</u>	<u>(1,877)</u>	<u>5,795</u>
Total	<u>\$119,357</u>	<u>\$44,720</u>	<u>\$164,077</u>

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 - DEFINED BENEFIT OPEB PLANS (continued)**

***Actuarial Assumptions - SERS***

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

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

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

The 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.

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 - DEFINED BENEFIT OPEB PLANS (continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US 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. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School's proportionate share of the net OPEB liability	\$212,141	\$174,829	\$145,285

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 - DEFINED BENEFIT OPEB PLANS (continued)**

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
School's proportionate share of the net OPEB liability	\$141,055	\$174,829	\$219,552

***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.

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

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

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 10 -DEFINED BENEFIT OPEB PLANS (continued)**

\*\*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 asset/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 School's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB 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 (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net OPEB asset	\$43,338	\$50,565	\$56,637
		Current Trend Rate	1% Increase
School's proportionate share of the net OPEB asset	\$56,294	\$50,565	\$44,745

**NOTE 11 - CONTINGENCIES**

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

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

**Full-Time Equivalency** - School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities.

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 11 - CONTINGENCIES (continued)**

The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform an FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2019 and determined the School was under paid by \$13,453. This amount is reported as intergovernmental receivable on the Statement of Net Position.

In addition, the School's contract with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 were required and have been finalized. The impact on the fiscal year 2019 financial statements, related to additional reconciliation necessary with this contract resulted in an increase of \$404 owed to the School's sponsor. This amount is not material to the School's financial statements at fiscal year-end and has not been recorded.

**NOTE 12 - SPONSOR CONTRACT**

The School contracted with Ohio Council of Community Schools (OCCS) as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2019, the total sponsorship fees paid totaled \$47,311.

**NOTE 13 - MANAGEMENT CONTRACT**

The School entered into an agreement with iLEAD Schools Development, a California nonprofit management company, to provide legal, financial, and other management support services for fiscal year 2019. The agreement was for a period of five years beginning July 1, 2016. Management fees are calculated as 15% of the total revenues received from the State of Ohio. The total amount due from the School for the fiscal year ending June 30, 2019 was \$213,244 however no portion of this amount was paid during the year. The full amount is included as a liability under "Accrued Expenses" on the Statement of Net Position.

**NOTE 14 - PURCHASED SERVICES**

For the period of July 1, 2018 through June 30, 2019, the School made the following purchased services commitments.

<u>Purchased Services</u>	<u>Amount</u>
Professional Services	\$ 419,831
Property Services	590,619
Utilities	52,384
Travel & Meetings	227
Communications	30,823
Contractual Trade	55,571
Pupil Transportation	910
Total	<u><u>\$ 1,150,365</u></u>

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 15 - LEASE OBLIGATIONS**

In February 2017, the School entered into a Forbearance Agreement with iLEAD Holland Project Development, LLC (subsidiary of Highmark Development) related to the original sublease dated April 8, 2016 and first amended on July 11, 2016 for space located at 1615 Timberwolf Drive, Holland, Ohio 43528. The term of the forbearance is through October 2, 2019 during which time rent payments will be reduced to assist with cash flow, but the obligations under the lease will continue to accrue.

Base rent *expense* for the fiscal year ended 2019 was \$548,495, however \$728,592 was paid to the landlord leaving an accrued balance of \$380,652 due to iLEAD Holland Project Development at June 30, 2019. This amount is reflected on the Statement of Net Position as Long-Term Debt (also See Note 7).

Subsequent to fiscal year end, the School entered into a Second Amendment to the Sublease Agreement to restructure monthly payments again. Beginning in August 2019, the amount of the monthly rent payments was reduced to \$17,500.

In addition to the above, the School entered into several capital leases in the prior fiscal year with Apple, Inc and TEQ Lease, Inc. Future lease obligations under these capital leases are as follows:

	<u>Apple Inc.</u>	<u>TEQ Lease, Inc. #043</u>	<u>TEQ Lease, Inc. #044</u>	<u>TEQ Lease, Inc. #138</u>	<u>TEQ Lease, Inc. #157</u>	<u>Total</u>
FY2020	\$ 4,006	\$ 1,626	\$ 8,511	\$ 3,561	\$ 1,634	\$ 19,338
FY2021	0	0	8,511	3,561	1,634	13,706
FY2022	0	0	1,419	3,561	1,634	6,614
FY2023	0	0	0	1,780	817	2,597
	<u>\$ 4,006</u>	<u>\$ 1,626</u>	<u>\$ 18,441</u>	<u>\$ 12,463</u>	<u>\$ 5,719</u>	<u>\$ 42,255</u>

**NOTE 16 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

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

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

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

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

**NOTE 17 - MANAGEMENT'S PLAN**

The fiscal year ended June 30, 2019, the School has accumulated a net position of (\$1,673,066) net of the cumulative effects of implementing GASB 68 and 75. The School's net deficit in fiscal year 2019 increased from the (\$1,191,907) net deficit in fiscal year 2018. The School's enrollment was 199 for fiscal year 2019, which was a significant increase over the fiscal year 2018 enrollment of 152. The School's ability to maintain a stable administrative and instructional team along with active advertising via print, radio, and mailings, and thorough referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the School to recover from its current deficits.

**NOTE 18 - SUBSEQUENT EVENTS**

On August 1, 2019, the School entered into a receivables purchase agreement with Charter Asset Management whereby the School received \$100,000 in proceeds through the sale of its monthly State Aid receivables. The financing cost associated with the transaction is approximately 1.3% of the face value. This was done as a stop-gap measure to maintain adequate cash-flow, but to also stop drawing advances from its management company, iLEAD Schools Development. In exchange, iLead Schools Development forgave \$100,000 of previous advances accrued by the School, but not yet repaid.

Additional measures were also taken to improve cash flow at the School by renegotiating the monthly Forbearance Agreement with iLEAD Holland Project Development, LLC to improve cash flow. See note 15 for details.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. The School's investments of the pension and other employee benefit plan in which the School participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the School's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.



**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	<u>2019</u>	<u>2018</u>
School's Proportion of the Net Pension Liability	0.0061655%	0.0021070%
School's Proportionate Share of the Net Pension Liability	\$ 353,110	\$ 125,889
School's Covered Payroll	\$ 205,481	\$ 63,579
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	171.85%	198.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	2019	2018
School's Proportion of the Net Pension Liability	0.00314669%	0.00167760%
School's Proportionate Share of the Net Pension Liability	\$ 691,887	\$ 398,517
School's Covered Payroll	\$ 357,729	\$ 184,429
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.41%	216.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 35,573	\$ 27,740	\$ 8,901
Contributions in Relation to the Contractually Required Contribution	<u>(35,573)</u>	<u>(27,740)</u>	<u>(8,901)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>
School Covered Payroll	\$ 263,504	\$ 205,481	\$ 63,579
Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%

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

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 72,392	\$ 50,082	\$ 25,820
Contributions in Relation to the Contractually Required Contribution	<u>(72,392)</u>	<u>(50,082)</u>	<u>(25,820)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 517,086	\$ 357,729	\$ 184,429
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%

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

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	<u>2019</u>	<u>2018</u>
School's Proportion of the Net OPEB Liability	0.0063018%	0.0021470%
School's Proportionate Share of the Net OPEB Liability	\$ 174,829	\$ 57,620
School's Covered Payroll	\$ 205,481	\$ 63,579
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	85.08%	90.63%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	2019	2018
School's Proportion of the Net OPEB Liability/Asset	0.00314669%	0.00167760%
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (50,565)	\$ 65,454
School's Covered Payroll	\$ 357,729	\$ 184,429
School's Proportionate Share of the Net OPEB Liability/Asset as a Percentage of its Covered Payroll	14.14%	35.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	176.00%	47.10%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution (2)	\$ 6,385	\$ 4,640	\$ 1,396
Contributions in Relation to the Contractually Required Contribution	<u>(6,385)</u>	<u>(4,640)</u>	<u>(1,396)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>
School Covered Payroll	\$ 263,504	\$ 205,481	\$ 63,579
OPEB Contributions as a Percentage of Covered Payroll (2)	2.42%	2.26%	2.20%

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

(2) Includes Surcharge

See accompanying notes to the required supplementary information

**iLEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	-	-	-
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School Covered Payroll	\$ 517,086	\$ 357,729	\$ 184,429
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

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

See accompanying notes to the required supplementary information



**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE 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.

**ILEAD SPRING MEADOWS - LUCAS COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 2 - NET OPEB LIABILITY**

***Changes in Assumptions – SERS***

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

**Pre-Medicare**

Fiscal year 2018 7.50 percent initially, decreasing to 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.

# OHIO AUDITOR OF STATE KEITH FABER



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

iLEAD Spring Meadows  
Lucas County  
1615 Timberwolf Drive  
Holland, Ohio 43528

To the Governing Board:

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 iLEAD Spring Meadows, Lucas County, Ohio (the School) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 26, 2020, wherein we noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. We also noted the School has suffered recurring losses from operations and has a net deficiency.

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

As part of our financial statement audit, we considered the School'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 School'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 School'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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2019-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the School'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*.

***School's Response to Finding***

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the School'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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

May 26, 2020

**iLEAD SPRING MEADOWS  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2019**

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

**FINDING NUMBER 2019-001**

**Material Weakness**

**Financial Reporting**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Accurate financial reporting is the responsibility of management and is essential to ensure the information provided to the readers of the financial statements accurately reflects the School's activity. The School should have procedures in place to prevent or detect material misstatements for the accurate presentation of the School's financial statements.

Operating advances from the School's Management Company was not reported as a cash inflow on the Statement of Cash Flows in the amount of \$403,000. Instead, this amount was netted by reporting \$213,244 as a cash payment for goods and services and also netting \$616,244 against cash payments to employees for services to reduce that amount on the Statement of Cash Flows.

This error was not identified and corrected prior to the School filing its annual financial report due to deficiencies in the School's internal controls over financial statement monitoring. The accompanying financial statements have been adjusted to reflect this change. Additional errors were noted in smaller relative amounts that did not require adjustment to the financial statements.

To help ensure the School's financial statements and notes to the financial statements are complete and accurate and to help identify and correct errors and omissions, the School should adopt policies and procedures, including a final review of the financial statements and notes to the financial statements by the Treasurer and the governing board.

**Officials' Response:**

The presentation of the operating advances in fiscal year 2019 was consistent with the prior year presentation, however because the current year advances were more significant than the year before, the classification of these advances as a separate line item was overlooked when the statements were prepared. We will be mindful of this in the future, however because the School stopped receiving advances from the management company at the end of fiscal year 2019, we do not expect this issue to recur in future periods.

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# OHIO AUDITOR OF STATE KEITH FABER



**ILEAD SPRING MEADOWS**

**LUCAS 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  
JUNE 16, 2020**