

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**

*(AUDITED)*

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018*



# OHIO AUDITOR OF STATE KEITH FABER



Board of Directors  
Imagine Leadership Academy  
2405 Romig Road  
Akron, Ohio 44320

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

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

February 25, 2019

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**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

Imagine Leadership Academy  
Summit County  
2405 Romig Road  
Akron, Ohio 44320

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Imagine Leadership Academy, Summit County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Imagine Leadership Academy's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinion***

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

***Emphasis of Matters***

As discussed in Note 3 to the financial statements, during fiscal year 2018, the Imagine Leadership Academy adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

As discussed in Note 17 to the financial statements, the Imagine Leadership Academy maintained a net position deficit. Note 17 describes management's plans regarding this matter. 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 postemployment benefit liabilities and pension and other postemployment benefit contributions, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of the Imagine Leadership Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Imagine Leadership Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
December 4, 2018



**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

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

**Financial Highlights**

Key financial highlights for 2018 are as follows:

- Net position was restated at the beginning of year as described in Note 3 of the notes to the basic financial statements.
- In total, net position was a deficit of \$3,543,442 at June 30, 2018.
- The Academy had operating revenues of \$1,415,188, operating expenses of \$1,614,079 and non-operating revenues of \$404,231 for fiscal year 2018. The operating loss was \$198,891 in the Academy's fifth year of operations.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy's Financial Activities**

***Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during 2018?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 8 and 9 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 10 of this report.

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

The table below provides a summary of the Academy's net position for fiscal year 2018 and 2017. Net position (deficit) at June 30, 2017, has been restated as described in Note 3 of the notes to the basic financial statements.

	<b>Net Position</b>	
	<u>2018</u>	<u>(Restated) 2017</u>
<b><u>Assets</u></b>		
Current assets	\$ 35,082	\$ 42,299
<b><u>Deferred outflows of resources</u></b>	<u>649,773</u>	<u>636,514</u>
<b><u>Liabilities</u></b>		
Current liabilities	38,566	41,268
Non-current liabilities	<u>3,928,932</u>	<u>4,183,781</u>
Total liabilities	<u>3,967,498</u>	<u>4,225,049</u>
<b><u>Deferred inflows of resources</u></b>	<u>260,799</u>	<u>202,546</u>
<b><u>Net Position</u></b>		
Unrestricted (deficit)	<u>(3,543,442)</u>	<u>(3,748,782)</u>
Total net position	<u>\$ (3,543,442)</u>	<u>\$ (3,748,782)</u>

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

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

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

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

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

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

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

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

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

As a result of implementing GASB 75, the Academy is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position (deficit) at June 30, 2017, from (\$3,244,717) to (\$3,748,782).

Over time, net position can serve as a useful indicator of a government’s financial position. At June 30, 2018 and 2017 (restated), the Academy’s net position totaled deficits of (\$3,543,442) and (\$3,748,782), respectively.

Current assets represent cash, accounts and intergovernmental receivables. Current liabilities represent accounts and intergovernmental payables for professional services. Refer to Notes 2.J, Note 5 and Note 9.B. for detail on the current receivables and payables.

Long-term liabilities represent advances payable to the Academy’s operating company for covering operating expenses (see Note 10 for detail), the net pension liability (see Note 6 for detail) and the net OPEB liability (see Note 7 for detail). Refer to Note 11 for a summary of the changes in the Academy’s long-term obligations during fiscal year 2018.

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

The table below shows the changes in net position for fiscal year 2018 and 2017.

**Change in Net Position**

	<u>2018</u>	<u>2017</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,415,188	\$ 1,395,241
Total operating revenue	<u>1,415,188</u>	<u>1,395,241</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	1,613,921	2,536,313
Other	158	158
Total operating expenses	<u>1,614,079</u>	<u>2,536,471</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and state grants	404,231	431,182
Total non-operating revenues	<u>404,231</u>	<u>431,182</u>
Change in net position	205,340	(710,048)
Net position (deficit) at beginning of year (restated)	<u>(3,748,782)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (3,543,442)</u>	<u>\$ (3,748,782)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 expenses still include OPEB expense of \$4,011 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$52,043. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 1,614,079
Negative OPEB expense under GASB 75	52,043
2018 contractually required contributions	<u>2,863</u>
Adjusted 2018 program expenses	1,668,985
Total 2017 program expenses under GASB 45	<u>2,536,471</u>
Decrease in program expenses not related to OPEB	<u>\$ (867,486)</u>

During fiscal year 2018, the Academy provided services to 173 students, compared to 172 students in 2017. The Academy relies on State foundation revenues for operations, with 77.78 percent and 76.39 percent of total revenues coming from State foundation for fiscal years 2018 and 2017, respectively. Federal and state grants include the Federal breakfast and lunch, Title VI-B, Title I, Title II-A and Title IV-A programs. The Academy contracted with Imagine Schools, Inc. for management services for fiscal years 2018 and 2017 (see Note 9.B to the notes to the financial statements for detail).

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

Expenses decreased \$922,392 or 36.37%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the Academy reported (\$497,547) in pension expense and (\$52,043) in OPEB expense mainly due to these benefit changes.

***Debt***

The Academy had no debt obligations outstanding at June 30, 2018 or June 30, 2017.

***Capital Assets***

The Academy had no capital assets to report at June 30, 2018 or June 30, 2017.

**Restrictions and Other Limitations**

The future stability of the Academy is not without challenges. The Academy does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the Academy.

**Current Financial Related Activities**

The Academy is sponsored by the North Central Ohio Educational Service Center. The Academy is reliant upon State foundation monies and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Richard Berdine, Treasurer, Imagine Leadership Academy, 2405 Romig Rd., Akron, Ohio 44320.

BASIC  
FINANCIAL STATEMENTS

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2018

<b>Assets:</b>	
Current assets:	
Cash . . . . .	\$ 309
Receivables:	
Accounts . . . . .	2,141
Intergovernmental . . . . .	<u>32,632</u>
Total assets . . . . .	<u>35,082</u>
 <b>Deferred outflows of resources:</b>	
Pension. . . . .	628,915
OPEB. . . . .	<u>20,858</u>
Total deferred outflows of resources. . . . .	<u>649,773</u>
 <b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	36,009
Intergovernmental payable . . . . .	<u>2,557</u>
Total current liabilities . . . . .	<u>38,566</u>
Long-term liabilities:	
Advances payable to operating company. . . . .	1,734,000
Net pension liability. . . . .	1,772,643
Net OPEB liability . . . . .	<u>422,289</u>
Total long-term liabilities . . . . .	<u>3,928,932</u>
Total liabilities. . . . .	<u>3,967,498</u>
 <b>Deferred inflows of resources:</b>	
Pension . . . . .	213,071
OPEB . . . . .	<u>47,728</u>
Total deferred inflows of resources . . . . .	<u>260,799</u>
 <b>Net position:</b>	
Unrestricted (deficit) . . . . .	<u>(3,543,442)</u>
Total net position (deficit). . . . .	<u>\$ (3,543,442)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 1,415,188
Total operating revenues . . . . .	1,415,188
 <b>Operating expenses:</b>	
Purchased services . . . . .	1,613,921
Other . . . . .	158
Total operating expenses. . . . .	1,614,079
 Operating loss . . . . .	 (198,891)
 <b>Non-operating revenues:</b>	
Federal and State grants. . . . .	404,231
Total non-operating revenues . . . . .	404,231
 Change in net position. . . . .	 205,340
 <b>Net position (deficit) at beginning of year (restated) . . . . .</b>	 <b>(3,748,782)</b>
 <b>Net position (deficit) at end of year . . . . .</b>	 <b>\$ (3,543,442)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Cash flows from operating activities:</b>	
Cash received from State foundation. . . . .	\$ 1,423,950
Cash payments for purchased services . . . . .	(1,833,556)
Cash payments for other expenses . . . . .	<u>(158)</u>
Net cash used in operating activities . . . . .	<u>(409,764)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from Federal and State grants . . . . .	<u>409,806</u>
Net cash provided by noncapital financing activities. . . . .	<u>409,806</u>
Net increase in cash . . . . .	42
<b>Cash at beginning of year . . . . .</b>	<u>267</u>
<b>Cash at end of year. . . . .</b>	<u><u>\$ 309</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss. . . . .	\$ (198,891)
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
(Increase) in accounts receivable. . . . .	(2,141)
Decrease in intergovernmental receivable . . . . .	3,825
Decrease in deferred outflows - pensions . . . . .	3,588
(Increase) in deferred outflows - OPEB . . . . .	(16,847)
(Decrease) in accounts payable. . . . .	(5,259)
Increase in intergovernmental payable . . . . .	2,557
Increase in advances payable to operating company . . . . .	459,000
(Decrease) in net pension liability . . . . .	(628,062)
(Decrease) in net OPEB liability . . . . .	(85,787)
Increase in deferred inflows - pensions. . . . .	10,525
Increase in deferred inflows - OPEB. . . . .	<u>47,728</u>
Net cash used in operating activities. . . . .	<u><u>\$ (409,764)</u></u>

**Non-cash transactions:**

The Academy received \$459,000 in advances payable to Imagine Schools, Inc. during fiscal year 2018.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

Imagine Leadership Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy’s objective is to address the needs of students in grades first through fifth using a leadership focus based upon Stephen Covey’s Seven Habits of Highly Effective Leaders, incorporated with Imagine’s guiding principles of Justice, Integrity, and Fun. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved under contract on May 10, 2013, with the North Central Ohio Educational Service Center (the “Sponsor”) for an initial term commencing on July 1, 2013 and ending on June 30, 2018. On May 11, 2018, the Academy sponsorship contract was signed, commencing July 1, 2018 and ending June 30, 2023. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to terminate the contract or deny renewal of the contract at its expiration.

The Academy operates under the direction of a Governing Board which is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Board controls the Academy’s instructional/support facility staffed by employees of the management company who provide services to 173 students.

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

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

**A. Basis of Presentation**

The Academy’s basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The Academy uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

**B. Measurement Focus**

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the Academy’s finances meet its cash flow needs.

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

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

**C. Basis of Accounting**

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

**D. Deferred Outflows of Resources and Deferred Inflows of Resources**

In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, see Notes 6 and 7 for deferred outflows of resources related to the Academy's net pension liability and net OPEB liability, respectively.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability and net OPEB liability, see Notes 6 and 7, respectively, for detail.

**E. Budgetary Process**

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education (ODE).

**F. Cash**

Cash received by the Academy is reflected as "cash" on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. The Academy did not have any investments during fiscal year 2018.

**IMAGINE LEADERSHIP ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**G. Capital Assets**

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The Academy has established a capitalization threshold of \$1,500. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The Academy had no capital assets over the threshold to report at June 30, 2018.

**H. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**I. Intergovernmental Revenues**

The Academy currently participates in the State Foundation, Special Education, Economic Disadvantaged, K-3 Literacy, Targeted Assistance, 3<sup>rd</sup> Grade Reading Bonus, and Facilities Programs. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2018 school year totaled \$1,415,188.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue received during fiscal year 2018 was \$404,231.

**J. Accrued Liabilities and Long-Term Obligations**

All payables and other accrued liabilities are reported on the statement of net position. Accrued liabilities include accounts payable (e.g. amounts due to Imagine Schools Inc. as further described in Note 9.B., sponsor fees, and bank charges) and intergovernmental payables (e.g. amounts due to the School Employees Retirement System and ODE). Long-term obligations are detailed in Note 11.

**K. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**L. Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, 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.

**M. Estimates**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

**Change in Accounting Principles/Restatement of Net Position**

For fiscal year 2018, the Academy has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the Academy's postemployment benefit plan disclosures, as presented in Note 7 to the basic financial statements, and added required supplementary information which is presented on pages 44-47 and 49.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Academy.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

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**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

A net position restatement is required in order to implement GASB Statement No 75. Net position at July 1, 2017 has been restated as follows:

Net position (deficit) as previously reported	\$ (3,244,717)
Deferred outflows - payments subsequent to measurement date	4,011
Net OPEB liability	<u>(508,076)</u>
Restated net position (deficit) at July 1, 2017	<u>\$ (3,748,782)</u>

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

**NOTE 4 - DEPOSITS**

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2018, the carrying amount and the bank balance of the Academy's deposits was \$309. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2018, consisted of intergovernmental receivables (e.g. grants and entitlements and amounts due from STRS and SERS) and accounts receivable from Imagine Schools, Inc. and the Academy's Sponsor. All receivables are considered collectible in full.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

The Academy has contracted with Imagine Schools, Inc. (See Note 9.B) to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting retirement contributions to the systems noted below.

***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.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 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.



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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$33,199 for fiscal year 2018.

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

Plan Description - Licensed teachers participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website 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. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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 fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$83,203 for fiscal year 2018.

***Net Pension Liability***

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

**IMAGINE LEADERSHIP ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00730010%	0.00557585%	
Proportion of the net pension liability current measurement date	<u>0.00758250%</u>	<u>0.00555501%</u>	
Change in proportionate share	<u>0.00028240%</u>	<u>-0.00002084%</u>	
Proportionate share of the net pension liability	\$ 453,038	\$ 1,319,605	\$ 1,772,643
Pension expense	\$ 27,428	\$ (524,975)	\$ (497,547)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 19,497	\$ 50,957	\$ 70,454
Changes of assumptions	23,428	288,612	312,040
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	59,482	70,537	130,019
Academy contributions subsequent to the measurement date	<u>33,199</u>	<u>83,203</u>	<u>116,402</u>
Total deferred outflows of resources	<u>\$ 135,606</u>	<u>\$ 493,309</u>	<u>\$ 628,915</u>

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 10,635	\$ 10,635
Net difference between projected and actual earnings on pension plan investments	2,149	43,548	45,697
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	<u>3,227</u>	<u>153,512</u>	<u>156,739</u>
Total deferred inflows of resources	<u>\$ 5,376</u>	<u>\$ 207,695</u>	<u>\$ 213,071</u>

\$116,402 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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

**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ 61,906	\$ 43,941	\$ 105,847
2020	35,495	103,181	138,676
2021	10,191	33,592	43,783
2022	<u>(10,561)</u>	<u>21,697</u>	<u>11,136</u>
Total	<u>\$ 97,031</u>	<u>\$ 202,411</u>	<u>\$ 299,442</u>

***Actuarial Assumptions - SERS***

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

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 628,698	\$ 453,038	\$ 305,886

***Actuarial Assumptions - STRS Ohio***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees 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. Post-retirement disabled 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 - Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS Ohio's 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><u>100.00 %</u></u>	

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

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$ 1,891,608	\$ 1,319,605	\$ 837,777

**NOTE 7 - DEFINED BENEFIT OPEB PLANS**

The Academy has contracted with Imagine Schools, Inc. (See Note 9.B) to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting retirement contributions to the systems noted below.

***Net OPEB Liability***

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* and any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on the statement of net position.



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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was \$1,633.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$2,863 for fiscal year 2018. Of this amount, \$1,633 is reported as intergovernmental payable.

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

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

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

***Net OPEB Liability***

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

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.00736318%	0.00557585%	
Proportion of the net OPEB liability current measurement date	<u>0.00765920%</u>	<u>0.00555501%</u>	
Change in proportionate share	<u>0.00029602%</u>	<u>-0.00002084%</u>	
Proportionate share of the net OPEB liability	\$ 205,553	\$ 216,736	\$ 422,289
OPEB expense	\$ 14,252	\$ (66,295)	\$ (52,043)

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

	SERS	STRS	Total
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 12,512	\$ 12,512
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	5,483	-	5,483
Academy contributions subsequent to the measurement date	<u>2,863</u>	<u>-</u>	<u>2,863</u>
Total deferred outflows of resources	<u>\$ 8,346</u>	<u>\$ 12,512</u>	<u>\$ 20,858</u>

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

	SERS	STRS	Total
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 543	\$ 9,264	\$ 9,807
Changes of assumptions	19,506	17,459	36,965
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	-	956	956
Total deferred inflows of resources	\$ 20,049	\$ 27,679	\$ 47,728

\$2,863 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (5,217)	\$ (3,300)	\$ (8,517)
2020	(5,217)	(3,300)	(8,517)
2021	(3,997)	(3,300)	(7,297)
2022	(135)	(3,300)	(3,435)
2023	-	(984)	(984)
Thereafter	-	(983)	(983)
Total	\$ (14,566)	\$ (15,167)	\$ (29,733)

***Actuarial Assumptions - SERS***

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

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

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

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

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**NOTE 7 - 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:

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	\$ 248,231	\$ 205,553	\$ 171,741

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Academy's proportionate share of the net OPEB liability	\$ 166,791	\$ 205,553	\$ 256,855

***Actuarial Assumptions - STRS***

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

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

<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><u>100.00 %</u></u>	

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

**Discount Rate** - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's proportionate share of the net OPEB liability	\$ 290,965	\$ 216,736	\$ 158,071

  

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 150,579	\$ 216,736	\$ 303,806

**NOTE 8 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Academy maintained the following general liability, automobile liability, and excess/umbrella liability through Philadelphia Indemnity Insurance and workers compensation and employer's liability through Charter Oak Fire Insurance Co.

Coverage	Limits of Coverage
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	3,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000



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

<u>Coverage - (Continued)</u>	<u>Limits of Coverage</u>
Workers compensation and employers liability:	
Each accident	\$1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

Settled claims have not exceeded this commercial coverage in the past three years. There was no significant reduction in coverage from the prior fiscal year.

**NOTE 9 - CONTRACTS**

**A. Sponsor Contract**

The Academy entered into a sponsorship contract commencing on July 1, 2013 and ending on June 30, 2018, with the North Central Ohio Educational Service Center (the “Sponsor”) for its establishment. On May 11, 2018, the Academy sponsorship contract was signed, commencing July 1, 2018 and ending June 30, 2023. The Sponsor shall carry out the responsibilities established by law, including:

- Attend training sessions as required by the ODE;
- Prior to the Academy’s opening for instruction, verify by a site visit whether the Academy complies with all legal and contractual requirements;
- Monitor the Academy’s compliance with all applicable laws and with the terms of the contract;
- Conduct comprehensive site visits to the Academy as necessary;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Submit a written report of the evaluations conducted to the parents and students enrolled in the Academy and to ODE by November 30<sup>th</sup> of each year;
- Provide technical assistance to the Academy in complying with all laws and terms of the contract;
- Comply with the financial reporting requirements as established by ODE, and report the Academy’s financial records in accordance with applicable accounting standards and as prescribed by law;
- Notify ODE within twenty-four hours of the Academy’s failure to comply with applicable laws or contract requirements, as well as any financial difficulties. If such financial difficulties occur and may result in the Sponsor’s determination to declare the Academy to be on probationary status, to suspend the operations of the Academy, or terminate the contract. In such circumstances, the Sponsor shall provide written notice to ODE within 30 days of the Academy’s noncompliance or financial difficulties, specifying the exact nature of the problem and the plan for and status of any resolution;

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CONTRACTS - (Continued)**

- Take steps to intervene in the Academy's operation to correct problems with overall performance, declare the Academy to be on a probationary status pursuant to Ohio Revised Code Section 3314.073, suspend the operation of the Academy pursuant to Ohio Revised Code 3314.072 or terminate the contract pursuant to Ohio Revised Code 3314.07;
- Have in place a plan of action to be undertaken in the event the Academy experiences financial difficulties or closes prior to the end of a school year.

The Academy paid the Sponsor \$41,673 for services during fiscal year 2018. Accounts receivable from the Sponsor in the amount of \$28 has been reported to reimburse the Academy for amounts due to ODE at June 30, 2018, in accordance with the sponsorship contract (see Note 15.B for detail).

**B. Operating Contract**

The Academy entered into an operating contract with Imagine Schools, Inc. for management consulting services. The contract shall continue until termination or expiration without renewal of the charter. Imagine Schools, Inc. is required to provide the following services:

- Personnel and human resources administration
- Program of instruction
- Purchasing and contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

For the services listed above, the Academy is required to pay a fee to Imagine Schools, Inc. The fee is equal to approximately 52 percent of the total per pupil allowance received from the State of Ohio and of State and/or Federal grant funds received by the Academy for the creation and operation of its school. Imagine Schools, Inc. charges the Academy (retains) an amount equaling the excess of unrestricted revenue over expense. Payments to Imagine Schools, Inc. amounted to \$920,204 during fiscal year 2018.

At June 30, 2018, the Academy reported accounts payable to Imagine Schools, Inc. in the amount of \$32,632. This payable consists of intergovernmental receivables (grants and amounts due from SERS and STRS) to be transferred to Imagine Schools, Inc. to cover expenses incurred by Imagine Schools, Inc. on the Academy's behalf, in accordance with the operating contract.

At June 30, 2018, the Academy had accounts receivable of \$2,113 from Imagine Schools, Inc. to cover the intergovernmental payables related to the SERS surcharge liability and FTE foundation adjustment due to ODE, in accordance with the operating contract.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CONTRACTS - (Continued)**

**C. Computer Services Contract**

The Academy entered into a contract with the North Central Ohio Computer Cooperative/Heartland Council of Governments (NCOCC/H-COG) for computer services. The contract is in effect from July 1, 2017 through June 30, 2018. Imagine Schools, Inc., on behalf of the Academy, paid NCOCC/H-COG for services provided during the year.

**D. Service Contract**

The Academy entered into a service agreement with the Sponsor on December 15, 2015, for various staffing services detailed in the agreement, for a term of ten years commencing January 1, 2016 and ending on July 31, 2026.

**NOTE 10 - ADVANCES PAYABLE TO OPERATING COMPANY**

The Academy had advances outstanding from Imagine Schools, Inc. in the amount of \$1,275,000 at June 30, 2017 to cover operating expenses. During fiscal year 2018 the Academy received an additional \$459,000 in advances and made no repayments. In accordance with the Academy's operating contract with Imagine Schools, Inc. a payable will be recorded for the unpaid amount of \$1,734,000 outstanding at June 30, 2018. Per the operating contract, Imagine Schools, Inc. may charge an interest rate of up to 10 percent on advances not repaid in the same fiscal year. A payment schedule has not been established.

**NOTE 11 - LONG-TERM OBLIGATIONS**

The long-term obligations at June 30, 2017, were restated to include the net OPEB liability, as described in Note 3. The following changes occurred in the long-term obligations during fiscal year 2018:

	(Restated)				Amounts
	Balance			Balance	Due in
	June 30, 2017	Additions	Reductions	June 30, 2018	One Year
Net pension liability:					
STRS	\$ 1,866,405	\$ -	\$ (546,800)	\$ 1,319,605	\$ -
SERS	534,300	-	(81,262)	453,038	-
Total net pension liability	<u>2,400,705</u>	<u>-</u>	<u>(628,062)</u>	<u>1,772,643</u>	<u>-</u>
Net OPEB liability:					
STRS	298,198	-	(81,462)	216,736	-
SERS	209,878	-	(4,325)	205,553	-
Total net OPEB liability	<u>508,076</u>	<u>-</u>	<u>(85,787)</u>	<u>422,289</u>	<u>-</u>
Advances payable to operating company	<u>1,275,000</u>	<u>459,000</u>	<u>-</u>	<u>1,734,000</u>	<u>-</u>
Total long-term obligations	<u>\$ 4,183,781</u>	<u>\$ 459,000</u>	<u>\$ (713,849)</u>	<u>\$ 3,928,932</u>	<u>\$ -</u>

Net Pension Liability: See Note 6 for information on the Academy's net pension liability.

Net OPEB Liability: See Note 7 for information on the Academy's net pension liability.

Advances Payable to Operating Company: See Note 10 for information on the Academy's advances payable to operating company.

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

**NOTE 12 - PURCHASED SERVICES EXPENSES**

For fiscal year 2018, purchased services expenses were as follows:

Operating fees	\$ 920,204
Sponsorship fees	41,673
Operating lease payments	641,581
Professional and technical services	<u>10,463</u>
Total	<u>\$ 1,613,921</u>

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**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

**NOTE 13 - OPERATING COMPANY EXPENSES**

For the fiscal year ended June 30, 2018, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the Academy:

Direct Expenses:

Salaries and wages	
Instruction	\$ 566,373
Support services	63,275
Administrative services	159,680
Fiscal/business services	15,009
Operations and maintenance	25,738
Family/community activities	23,987
Employees' benefits	
Instruction	191,577
Support services	11,367
Administrative services	78,270
Fiscal/business services	2,100
Operations and maintenance	15,963
Family/community activities	5,909
Purchased services	
Instruction	98,931
Support services	78,473
Administrative services	105,725
Fiscal/business services	8,805
Operations and maintenance	79,011
Pupil transportation	48,386
Support/food services	129,195
Supplies and materials	
Instruction	3,334
Administrative services	14,943
Operations and maintenance	52,283
Support/food services	30,143
Other direct costs	
Instruction	92,557
Administrative services	132,468
Fiscal/business services	<u>5,983</u>
Total expenses	<u>\$ 2,039,485</u>

Overhead charges are assigned to the Academy based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the Academy. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

**NOTE 14 - OPERATING LEASES**

**A. Lessee**

The Academy and its Sponsor, the North Central Ohio ESC, entered into a sublease agreement on March 15, 2013, with Schoolhouse Finance, LLC (SHF) to lease classroom space for the Academy. The term of the lease commenced June 30, 2013, and shall continue through June 30, 2033, unless sooner terminated pursuant to any provisions. The Academy shall pay to Schoolhouse Finance, LLC \$583,320 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term. The base rent shall escalate annually on July 1 at a rate equal to the greater of the increase in the overall Consumer Price Index All-Urban Consumers, all items less food and energy, and three percent.

The Academy made \$641,581 in payments to Schoolhouse Finance, LLC during fiscal year 2018.

**B. Lessor**

The Academy entered into a sublease agreement on June 9, 2017, with the North Central Educational Service Center and Imagine Akron Academy to lease shared space consisting of administrative offices, gym, outdoor play areas and parking to Imagine Akron Academy. The term of the sublease will commence July 1, 2017, and shall end on June 30, 2018. The monthly base rent is \$5,000 and is paid directly to the management company on the first day of each calendar month.

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2018.

**B. Ohio Department of Education Enrollment Review**

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

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

**NOTE 15 - CONTINGENCIES - (Continued)**

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2018.

As a result of the fiscal year 2018 reviews to-date, the Academy owes \$924 to ODE. This amount has been recorded as an intergovernmental payable at June 30, 2018.

In addition, the Academy's contracts with the Sponsor and Imagine Schools, Inc. require payment based on revenues received from the State. As a result of the fiscal year 2018 reviews, the Academy has recorded accounts receivable in the amount of \$508 at June 30, 2018.

**C. Litigation**

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**NOTE 16 - RELATED PARTY TRANSACTIONS**

Imagine Schools, Inc. and Schoolhouse Finance, LLC are both subsidiaries of Imagine Schools Non-Profit, Inc.

**NOTE 17 - MANAGEMENT PLAN**

The Academy had an increase of \$205,340 in net position and deficit net position of \$3,543,442 at June 30, 2018. The deficit net position is primarily due to the net pension liability of \$1,772,643, net OPEB liability of \$422,289, deferred outflows of resources and deferred inflows of resources related to the net pension liability and net OPEB liability of \$649,773 and \$260,799, respectively, and an advance payable of \$1,734,000 outstanding at June 30, 2018. The Management Company will continue to support the Academy, financially, until no longer deemed effective. The Academy will pay the advances to Imagine Schools, Inc., as the Academy's financial outlook improves and is eventually able to stand alone financially. The net pension and net OPEB liability and related deferred outflows of resources and deferred inflows of resources are required to be reported in accordance with GASB Statements No. 68 and 71, as described in Note 6 and GASB Statement No. 75, as described in Note 7. Management intends to continue to increase Academy enrollment and improve operating efficiencies.

REQUIRED SUPPLEMENTARY INFORMATION



**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Academy's proportion of the net pension liability	0.00758250%	0.00730010%	0.00742040%	0.00401000%
Academy's proportionate share of the net pension liability	\$ 453,038	\$ 534,300	\$ 423,415	\$ 202,944
Academy's covered payroll	\$ 249,029	\$ 226,714	\$ 223,392	\$ 116,515
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	181.92%	235.67%	189.54%	174.18%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%

Note: Information prior to 2015 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Academy's proportion of the net pension liability	0.00555501%	0.00557585%	0.00644595%	0.00583018%
Academy's proportionate share of the net pension liability	\$ 1,319,605	\$ 1,866,405	\$ 1,781,472	\$ 1,418,102
Academy's covered payroll	\$ 610,707	\$ 586,686	\$ 674,664	\$ 595,685
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	216.08%	318.13%	264.05%	238.06%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%

Note: Information prior to 2015 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY'S PENSION CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 33,199	\$ 34,864	\$ 31,740	\$ 29,443	\$ 16,149
Contributions in relation to the contractually required contribution	<u>(33,199)</u>	<u>(34,864)</u>	<u>(31,740)</u>	<u>(29,443)</u>	<u>(16,149)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 245,919	\$ 249,029	\$ 226,714	\$ 223,392	\$ 116,515
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%	13.86%

Note: The Academy began operations in fiscal year 2014; therefore, information prior to fiscal year 2014 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY'S PENSION CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 83,203	\$ 85,499	\$ 82,136	\$ 94,453	\$ 77,439
Contributions in relation to the contractually required contribution	<u>(83,203)</u>	<u>(85,499)</u>	<u>(82,136)</u>	<u>(94,453)</u>	<u>(77,439)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 594,307	\$ 610,707	\$ 586,686	\$ 674,664	\$ 595,685
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%	13.00%

Note: The Academy began operations in fiscal year 2014; therefore, information prior to fiscal year 2014 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
Academy's proportion of the net OPEB liability	0.00765920%	0.00736318%
Academy's proportionate share of the net OPEB liability	\$ 205,553	\$ 209,878
Academy's covered payroll	\$ 249,029	\$ 226,714
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.54%	92.57%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
Academy's proportion of the net OPEB liability	0.00555501%	0.05575850%
Academy's proportionate share of the net OPEB liability	\$ 216,736	\$ 298,198
Academy's covered payroll	\$ 610,707	\$ 586,686
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.49%	50.83%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY'S OPEB CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,863	\$ 4,011	\$ 3,577	\$ 3,401	\$ 107
Contributions in relation to the contractually required contribution	<u>(2,863)</u>	<u>(4,011)</u>	<u>(3,577)</u>	<u>(3,401)</u>	<u>(107)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 245,919	\$ 249,029	\$ 226,714	\$ 223,392	\$ 116,515
Contributions as a percentage of covered payroll	1.16%	1.61%	1.58%	1.52%	0.09%

Note: The Academy began operations in fiscal year 2014; therefore, information prior to fiscal year 2014 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY'S OPEB CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ 5,262
Contributions in relation to the contractually required contribution	-	-	-	-	(5,262)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 594,307	\$ 610,707	\$ 586,686	\$ 674,664	\$ 595,685
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	1.00%

Note: The Academy began operations in fiscal year 2014; therefore, information prior to fiscal year 2014 is not applicable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

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PENSION

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

**IMAGINE LEADERSHIP ACADEMY  
SUMMIT COUNTY, OHIO**

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

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OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% 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 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) 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 and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.



## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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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***

Imagine Leadership Academy  
Summit County  
2405 Romig Road  
Akron, Ohio 44320

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Imagine Leadership Academy, Summit County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Imagine Leadership Academy's basic financial statements and have issued our report thereon dated December 4, 2018, wherein we noted as discussed in Note 3, the Imagine Leadership Academy adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and wherein we noted the Imagine Leadership Academy experienced a net position deficit at fiscal year ended June 30, 2018 as described in Note 17.

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

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

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

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

***Compliance and Other Matters***

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

***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 Imagine Leadership Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Imagine Leadership Academy's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.  
December 4, 2018

# OHIO AUDITOR OF STATE KEITH FABER



**IMAGINE LEADERSHIP ACADEMY**

**SUMMIT COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 7, 2019**