

HOPE Academy Northwest Campus  
Cuyahoga County, Ohio

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2018



# OHIO AUDITOR OF STATE KEITH FABER



Board of Education  
Hope Academy Northwest Campus  
1441 West 116th Street  
Cleveland, Ohio 44102

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

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

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

Keith Faber  
Auditor of State  
Columbus, Ohio

February 28, 2019

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**HOPE ACADEMY NORTHWEST CAMPUS  
CUYAHOGA COUNTY**

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December 27, 2018

To the Board of Directors  
HOPE Academy Northwest Campus  
Cuyahoga County, Ohio  
1441 West 116th Street  
Cleveland, Ohio 44102

## **Independent Auditor's Report**

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

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

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

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

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

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

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

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

***Opinion***

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

***Emphasis of a Matter***

As described in Note 3, the School restated the net position balance to account for the implementation of GASB Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of the School's Contributions-Pension, Schedule of the School's Proportionate Share of the Net OPEB Liability, and Schedule of the School's Contributions-OPEB* on pages 3-7, 35, 36-37, 39 and 40-41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Kea & Associates, Inc.*

Medina, Ohio



**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*(Unaudited)*

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

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

**Financial Highlights**

- In total, Net Position increased \$1,102,824, which represents a 34.3 percent increase from 2017 restated net position.
- Total assets decreased \$47,453, which represents a 10.9 percent decrease from 2017.
- Total liabilities decreased \$1,268,645, which represents an 37.4 percent decrease from 2017.
- The School implemented GASB 75, which reduced beginning net position as previously reported by \$511,555.
- A decrease in net pension liability and net OPEB liability substantially decreased fringe benefits (reported as pension/OPEB expense) compared to fiscal year 2017. See further explanation after Table 1.

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

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.

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

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

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

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

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

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

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$2,707,761) to (\$3,219,316).

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**Cuyahoga County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
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**Using this Financial Report**

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

**Statement of Net Position**

The Statement of Net Position answers the question of how well the School performed financially during 2018. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital, and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

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

**(Table 1)**  
**Statement of Net Position**

	<u>2018</u>	<u>Restated 2017</u>
<b>Assets</b>		
Current Assets	\$ 388,098	\$ 432,877
Capital Assets, Net	0	2,674
<i>Total Assets</i>	<u>388,098</u>	<u>435,551</u>
 <b>Deferred Outflows</b>	 <u>540,861</u>	 <u>472,708</u>
 <b>Liabilities</b>		
Current Liabilities	58,389	98,528
Long Term Liabilities	2,066,538	3,295,044
<i>Total Liabilities</i>	<u>2,124,927</u>	<u>3,393,572</u>
 <b>Deferred Inflows</b>	 <u>920,524</u>	 <u>734,003</u>
 <b>Net Position</b>		
Investment in Capital Assets	0	2,674
Unrestricted	<u>(2,116,492)</u>	<u>(3,221,990)</u>
<i>Total Net Position</i>	<u>\$ (2,116,492)</u>	<u>\$ (3,219,316)</u>

Total assets decreased \$47,453. This decrease was primarily due to the decrease in grant funding receivable. Current liabilities decreased \$40,139. This decrease was primarily due to a decrease in grant funding payable. The significant decrease in Long Term Liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits

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by SERS. The significant changes in pension and OPEB deferred outflows and pension deferred inflows are primarily from changes in proportionate share of contributions. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

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

Table 2 shows the changes in Net Position for fiscal years 2018 and 2017, as well as a listing of revenues and expenses.

**(Table 2)**  
**Change in Net Position**

	2018	2017
Operating Revenue	\$ 1,998,988	\$ 2,112,434
Non-Operating Revenue	545,682	584,216
Total Revenue	2,544,670	2,696,650
Operating Expenses	1,441,846	2,487,202
Change In Net Position	\$ 1,102,824	\$ 209,448

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$1,655 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$86,719. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	\$ 1,441,846
Negative OPEB Expense under GASB 75	86,719
2018 Contractually Required Contribution	1,056
Adjusted 2018 Program Expenses	1,529,621
Total 2017 Program Expenses under GASB 45	2,487,202
Decrease in Program Expenses not Related to OPEB	\$ (957,581)

The School's operating and non-operating revenues were based on the School's full-time enrollment (FTE) and the School's federal grant funding received throughout the year. The School's total expenses decreased \$1,045,356. This decrease was primarily due to the decrease in the Pension expense, as previously discussed. The School's most significant expenses, "Purchased Services: Management Fees" are a result of the management agreement in place between the School and WHLS of Ohio, LLC. The agreement provides that specific percentages of the revenues received by the School will be paid to

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WHLS of Ohio, LLC to fund operations (see notes to the financial statements, note 8). See financial highlights for explanation of fluctuation in operating expenses. The negative expense reported by Pension & OPEB was also caused by these accruals.

**Capital Assets**

For the year ended June 30, 2018, all assets had been fully depreciated in a prior fiscal year. See Note 6 for further information.

**Current Financial Issues**

The HOPE Academy Northwest Campus received revenue for 235 students in 2018. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$8,506 in fiscal year 2018. The School receives additional revenues from grant subsidies.

Although there is a possibility that state aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change. The relationship brings stability to the School since specific percentages of revenues are payable to the management company (see notes to the financial statements, note 8).

**Contacting the School's Financial Management**

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer for the HOPE Academy Northwest Campus, 3200 West Market Street, Suite 300, Akron, Ohio 44333.

**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Statement of Net Position*  
*June 30, 2018*

**ASSETS**

Current Assets

Cash And Cash Equivalents	\$	339,812
Grant Funding Receivable		41,533
Prepaid Insurance		6,753
		6,753

<b>Total Assets</b>		388,098
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**DEFERRED OUTFLOWS OF RESOURCES**

Pension		525,267
OPEB		15,594
		15,594

<b>Total Deferred Outflows of Resources</b>		540,861
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**LIABILITIES**

Current Liabilities

Accounts Payable		58,389
		58,389

Total Current Liabilities		58,389
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Long Term Liabilities

Net Pension Liability		1,727,104
Net OPEB Liability		339,434
		339,434

Total Long Term Liabilities		2,066,538
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<b>Total Liabilities</b>		2,124,927
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**DEFERRED INFLOWS OF RESOURCES**

Pension		820,584
OPEB		99,940
		99,940

<b>Total Deferred Inflows of Resources</b>		920,524
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**NET POSITION**

Unrestricted Net Position		(2,116,492)
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<b>Total Net Position</b>		\$ (2,116,492)
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See accompanying notes to the basic financial statements.

**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Net Position*  
*For the Fiscal Year Ended June 30, 2018*

**OPERATING REVENUES**

State Basic Aid	\$	1,937,884
Facilities Aid		45,814
3rd Grade Reading Bonus		2,957
Casino Revenue		12,333
		1,998,988

**OPERATING EXPENSES**

Purchased Services: Management Fees		1,877,389
Purchased Services: Federal Grants		520,706
Purchased Services: State Grants		2,845
Sponsorship Fees		57,966
Pension & OPEB		(1,110,137)
Board of Education		34,743
Legal		21,739
Accounting & Auditing		25,208
Insurance: D&O & Liability		8,713
Depreciation		2,674
		1,441,846
<b>Total Operating Expenses</b>		<b>1,441,846</b>
<b>Operating Income (Loss)</b>		<b>557,142</b>

**NON-OPERATING REVENUES**

Federal and State Grants		523,551
Miscellaneous Revenue		17,940
Interest		4,191
		545,682
<b>Total Non-Operating Revenues</b>		<b>545,682</b>
<b>Change in Net Position</b>		<b>1,102,824</b>
<b>Net Position Beginning of Year (Restated)</b>		<b>(3,219,316)</b>
<b>Net Position End of Year</b>	<b>\$</b>	<b>(2,116,492)</b>

See accompanying notes to the basic financial statements.

**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2018

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received From State Aid	\$ 1,998,678
Cash Payments To Suppliers For Goods And Services	(2,500,462)
	(501,784)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received From Grant Programs	482,018
Cash Received From Miscellaneous Revenue	17,940
	499,958

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash Received From Interest	4,191
	2,365
Net Increase in Cash and Cash Equivalents	337,447
Cash and Cash Equivalents at Beginning of Year	337,447
	339,812
Cash and Cash Equivalents at End of Year	\$ 339,812

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

Operating Income (Loss)	\$ 557,142
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**ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	2,674
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:	
Continuing Fees Receivable	5,358
Prepays	(417)
Deferred Outflows of Resources	(68,153)
Deferred Inflows of Resources	186,521
Accounts Payable	49,265
State Aid Payable	(5,668)
Net Pension/OPEB Liability	(1,228,506)
	(1,058,926)
Total Adjustments	(1,058,926)
Net Cash Used For Operating Activities	\$ (501,784)

See accompanying notes to the basic financial statements.



**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

HOPE Academy Northwest Campus (the School) is a federal tax exempt 501(c)(3) and state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with WHLS of Ohio, LLC for most of its functions (see Note 8). WHLS of Ohio, LLC is under ownership of ACCEL Schools of Ohio, LLC.

The School was approved for operation under contract with the The Ohio Council of Community Schools (Sponsor) for a period of five years from July 1, 2015 through June 30, 2019. The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility, which is leased by WHLS of Ohio, LLC. The facility is staffed with teaching personnel employed by WHLS of Ohio, LLC, who provide services to 235 students. The Board also operates the Life Skills Center of North Akron in the city of Akron.

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

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

***Basis of Presentation***

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

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

***Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources as well as all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and

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**Cuyahoga County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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decreases (i.e., expenses) in Net Position. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

***Budgetary Process***

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

***Cash and Cash Equivalents***

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

During the year 2018, the School invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

***Intergovernmental Revenues***

The School currently participates in the State Foundation Program, Facilities Aid and casino tax distributions, which are reflected under "Operating revenues" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

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

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**Cuyahoga County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

***Capital Assets and Depreciation***

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

Depreciation is computed by the straight-line method over five years for “Equipment.”

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with WHLS of Ohio, LLC (see Note 8).

***Use of Estimates***

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

***Net Position***

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

***Operating Revenues and Expenses***

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

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

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

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***Deferred Outflows/Inflows of Resources***

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 11 and 12).

***Prepaid***

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

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

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

Net Position, June 30, 2017	\$ (2,707,761)
Adjustments:	
Net OPEB Liability	(513,210)
Deferred Outflow-Payments Subsequent to Measurement Date	1,655
Restated Net Position, July 1, 2017	\$ (3,219,316)

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

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests

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in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

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

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

***Investments***

As of June 30, 2018, the School had the following investment:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>Investment Maturity 3 Months or Less</u>	<u>Percentage of Total</u>
STAROhio	\$ 106,416	\$ 106,416	100%

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days and carries a rating of AAAM by S&P Global Ratings.

*Concentration of Credit Risk:* The School places no limit on the amount that may be invested in any one issuer.

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**NOTE 5 - GRANTS FUNDING RECEIVABLE**

The School has recorded “Grants funding receivable” in the amount of \$41,533 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2018.

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION**

As of June 30, 2018, the School’s capital assets are fully depreciated.

	Balance 06/30/2017	Additions	Reductions	Balance 6/30/2018
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$ 134,560	\$ 0	\$ 0	\$ 134,560
<i>Total Capital Assets, Being Depreciated</i>	<u>134,560</u>	<u>0</u>	<u>0</u>	<u>134,560</u>
 Less: Accumulated Depreciation				
Equipment	(131,886)	(2,674)	0	(134,560)
<i>Total Accumulated Depreciation</i>	<u>(131,886)</u>	<u>(2,674)</u>	<u>0</u>	<u>(134,560)</u>
 <i>Total Capital Assets Being Depreciated, Net</i>	 <u>\$ 2,674</u>	 <u>\$ (2,674)</u>	 <u>\$ 0</u>	 <u>\$ 0</u>

**NOTE 7 - RISK MANAGEMENT**

*Property and Liability:* The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHLS of Ohio, LLC, WHLS of Ohio, LLC has contracted with an insurance company for property and general liability insurance pursuant to the management agreement. (see Note 8). There were no significant reduction in insurance coverage from the prior year and claims did not exceed insurance coverage over the past three years.

*Director and Officer:* Coverage has been purchased by the School with a \$2,000,000 aggregate limit and a \$5,000, \$15,000, or \$50,000 deductible, depending on the claim.

**NOTE 8 - AGREEMENT WITH WHLS OF OHIO, LLC**

Effective January 22, 2009, the School extended its management agreement (Agreement) with WHLS of Ohio, LLC, which is an educational consulting and management company. The Agreement’s term will end on June 30, 2019. The Agreement will renew for an additional, successive five (5) year term unless one party notifies the other party by January 1<sup>st</sup> of the then-current year of its intention to not renew the agreement. Substantially all functions of the School have been contracted to WHLS of Ohio, LLC. WHLS of Ohio, LLC is responsible and accountable to the School’s Board of Directors for the administration and operation of the School. Effective July 1, 2009, the School is required to pay WHLS of Ohio, LLC a monthly continuing fee of 94 1/2 percent of the School’s “Qualified Gross Revenues”, defined as, all revenues and income received by the School except for charitable contributions and also WHLS of Ohio, LLC shall receive 100 percent of any and all grants or funding of any kind generated by WHLS of Ohio, LLC, and its affiliates beyond the regular per pupil state funding received by the School, (not including Ed

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Jobs ) subject to any terms and conditions attached to the grants, if any. The continuing fee is paid to WHLS of Ohio, LLC based on the qualified gross revenues.

The School had purchased service expenses for the year ended June 30, 2018, to WHLS of Ohio, LLC of \$2,400,940, of which \$48,172 was a payable to WHLS of Ohio, LLC as of June 30, 2018. WHLS of Ohio, LLC will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

**NOTE 9 - SPONSORSHIP FEES**

Under Paragraph D(2) of the sponsor contract with The Ohio Council of Community Schools (OCCS), it states that the School "...shall pay to the Sponsor, the amount of 3 percent of all state funds received each year by the School, in consideration for the time, organization, oversight, fees, and costs of the Sponsor pursuant to the contract." Such fees are paid to OCCS monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Position, the School incurred \$57,966 in sponsorship fees to OCCS.

**NOTE 10 - MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2018, WHLS of Ohio, LLC and its affiliates incurred the following expenses on behalf of the School.

	Regular Instruction (1100 Function Codes)	Special Instruction (1200 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
<b>Direct Expenses:</b>					
Salaries & Wages (100 Object Codes)	\$ 674,888	\$ -	\$ 125,175	\$ -	\$ 800,063
Employees' Benefits (200 Object Codes)	198,394	-	42,532	-	240,926
Professional & Technical Services (410 Object Codes)	23,173	292,391	253,571	-	569,135
Property Services (420 Object Codes)	-	-	420,438	-	420,438
Utilities (450 Object Codes)	-	-	67,040	-	67,040
Contracted Craft or Trade Services (460 Object Codes)	-	-	-	113,869	113,869
Transportation (480 Object Codes)	-	-	7,831	-	7,831
Supplies (500 Object Codes)	48,728	2,209	27,450	-	78,387
Other Direct Costs (All Other Object Codes)	-	-	123,618	-	123,618
<b>Indirect Expenses:</b>					
Overhead	-	-	225,138	-	225,138
<b>Total Expenses</b>	<b>\$ 945,183</b>	<b>\$ 294,600</b>	<b>\$ 1,292,793</b>	<b>\$ 113,869</b>	<b>\$2,646,445</b>

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. 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.

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

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

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

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

Age and service requirements for retirement are as follows:



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	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.

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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

The School’s contractually required contribution to SERS was \$9,822 for fiscal year 2018.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. 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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at 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

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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.

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

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

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

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

The School's contractually required contribution to STRS was \$102,513 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00324260%	0.00645486%	
Prior Measurement Date	<u>0.00474740%</u>	<u>0.00727263%</u>	
Change in Proportionate Share	<u>-0.00150480%</u>	<u>-0.00081777%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 193,738	\$ 1,533,366	\$ 1,727,104
Pension Expense	\$ (87,795)	\$ (822,232)	\$ (910,027)

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between Expected and			
Actual Experience	\$ 8,338	\$ 59,211	\$ 67,549
Changes of Assumptions	10,018	335,364	345,382
School Contributions Subsequent to the			
Measurement Date	<u>9,822</u>	<u>102,514</u>	<u>112,336</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 28,178</u>	<u>\$ 497,089</u>	<u>\$ 525,267</u>
<b>Deferred Inflows of Resources</b>			
Differences between Expected and			
Actual Experience	\$ 0	\$ 12,358	\$ 12,358
Net Difference between Projected and			
Actual Earnings on Pension Plan Investments	917	50,601	51,518
Changes in Proportion and Differences between			
School Contributions and Proportionate			
Share of Contributions	<u>156,680</u>	<u>600,028</u>	<u>756,708</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 157,597</u>	<u>\$ 662,987</u>	<u>\$ 820,584</u>

\$112,335 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 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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Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ (73,064)	\$ (161,153)	\$ (234,217)
2020	(45,835)	(92,312)	(138,147)
2021	(15,824)	6,412	(9,412)
2022	(4,518)	(21,359)	(25,877)
	<u>\$ (139,241)</u>	<u>\$ (268,412)</u>	<u>\$ (407,653)</u>

***Actuarial Assumptions - SERS***

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

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 investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
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 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 earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what 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.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School's Proportionate Share of the Net Pension Liability	\$ 268,858	\$ 193,738	\$ 130,810

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***Actuarial Assumptions - STRS***

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

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 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.

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.

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

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

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

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

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**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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 payments to determine the total pension liability as of June 30, 2017.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's Proportionate Share of the Net Pension Liability	\$ 2,198,028	\$ 1,533,366	\$ 973,488

**Assumption Changes since the Prior Measurement Date**

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

**Benefit Term Changes since the Prior Measurement Date**

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

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**Net OPEB Liability**

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

The net OPEB liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables,

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including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

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

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

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

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

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

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



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was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School's surcharge obligation was \$692.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$1,056 for fiscal year 2018. Of this amount \$692 is reported as an accounts payable.

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

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

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

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.00326370%	0.00645486%	
Prior Measurement Date	0.00435970%	0.00727263%	
Change in Proportionate Share	-0.00109600%	-0.00081777%	
Proportionate Share of the Net OPEB Liability	\$ 87,589	\$ 251,845	\$ 339,434
OPEB Expense	\$ (3,622)	\$ (83,097)	\$ (86,719)

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At June 30, 2018, the School 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	\$ 0	\$ 14,538	\$ 14,538
School Contributions Subsequent to the Measurement Date	1,056	0	1,056
<b>Total Deferred Outflows of Resources</b>	<u>\$ 1,056</u>	<u>\$ 14,538</u>	<u>\$ 15,594</u>
<b>Deferred Inflows of Resources</b>			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 231	\$ 10,765	\$ 10,996
Changes of Assumptions	8,312	20,287	28,599
Changes in Proportionate Share and Differences between School Contributions and Proportionate Share of Contributions	22,859	37,486	60,345
<b>Total Deferred Inflows of Resources</b>	<u>\$ 31,402</u>	<u>\$ 68,538</u>	<u>\$ 99,940</u>

\$1,056 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ (11,351)	\$ (9,897)	\$ (21,248)
2020	(11,351)	(9,897)	(21,248)
2021	(8,643)	(9,897)	(18,540)
2022	(57)	(9,898)	(9,955)
2023	0	(7,206)	(7,206)
Thereafter	0	(7,205)	(7,205)
	<u>\$ (31,402)</u>	<u>\$ (54,000)</u>	<u>\$ (85,402)</u>

***Actuarial Assumptions - SERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members

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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 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 investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 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.

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

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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	100.00 %	

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's Proportionate Share of the Net OPEB Liability	\$ 105,775	\$ 87,589	\$ 73,181
	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 71,072	\$ 87,589	\$ 109,450

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***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	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 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.

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:

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

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

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

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

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	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's Proportionate Share of the Net OPEB Liability	\$ 338,098	\$ 251,845	\$ 183,677
		Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 174,971	\$ 251,845	\$ 353,020

**NOTE 13 - CONTINGENCIES**

**A. Grants**

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

**B. Enrollment FTE**

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

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. As of the date of this report, ODE has not performed an FTE Review on the School for fiscal year 2018.

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

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

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**NOTE 14 - LITIGATION**

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

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*Required Supplementary Information*  
*Schedule of the School's Proportionate Share of the Net Pension Liability*  
*Last Five Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><i>School Employees Retirement System (SERS)</i></b>					
School's Proportion of the Net Pension Liability	0.00324260%	0.00474740%	0.00778410%	0.00868800%	0.00868800%
School's Proportionate Share of the Net Pension Liability	\$ 193,738	\$ 347,466	\$ 444,168	\$ 439,695	\$ 516,647
School's Covered Payroll	\$ 104,900	\$ 260,157	\$ 450,114	\$ 478,117	\$ 345,159
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	184.69%	133.56%	98.68%	91.96%	149.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<b><i>State Teachers Retirement System (STRS)</i></b>					
School's Proportion of the Net Pension Liability	0.00645486%	0.00727263%	0.00807103%	0.01049523%	0.01049523%
School's Proportionate Share of the Net Pension Liability	\$ 1,533,366	\$ 2,434,368	\$ 2,230,597	\$ 2,552,803	\$ 3,040,882
School's Covered Payroll	\$ 709,636	\$ 832,571	\$ 1,040,664	\$ 840,346	\$ 746,169
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	292.39%	214.34%	303.78%	407.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

**HOPE Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School's Contributions - Pension*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 9,822	\$ 14,686	\$ 36,422	\$ 59,325
Contributions in Relation to the Contractually Required Contribution	<u>(9,822)</u>	<u>(14,686)</u>	<u>(36,422)</u>	<u>(59,325)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 72,756	\$ 104,900	\$ 260,157	\$ 450,114
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 102,514	\$ 99,349	\$ 116,560	\$ 145,693
Contributions in Relation to the Contractually Required Contribution	<u>(102,514)</u>	<u>(99,349)</u>	<u>(116,560)</u>	<u>(145,693)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 732,243	\$ 709,636	\$ 832,571	\$ 1,040,664
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 66,267	\$ 47,770	\$ 41,541	\$ 37,529	\$ 51,049	\$ 32,876
<u>(66,267)</u>	<u>(47,770)</u>	<u>(41,541)</u>	<u>(37,529)</u>	<u>(51,049)</u>	<u>(32,876)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 478,117	\$ 345,159	\$ 308,855	\$ 298,560	\$ 377,024	\$ 334,106
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$ 109,245	\$ 97,002	\$ 125,658	\$ 134,013	\$ 150,279	\$ 137,583
<u>(109,245)</u>	<u>(97,002)</u>	<u>(125,658)</u>	<u>(134,013)</u>	<u>(150,279)</u>	<u>(137,583)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 840,346	\$ 746,169	\$ 966,600	\$ 1,030,869	\$ 1,155,992	\$ 1,058,331
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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**HOPE Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School's Proportionate Share of the Net OPEB Liability*  
*Last Two Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>
<b><i>School Employees Retirement System (SERS)</i></b>		
School's Proportion of the Net OPEB Liability	0.00326370%	0.00435970%
School's Proportionate Share of the Net OPEB Liability	\$ 87,589	\$ 124,268
School's Covered Payroll	\$ 104,900	\$ 260,157
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	83.50%	47.77%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<b><i>State Teachers Retirement System (STRS)</i></b>		
School's Proportion of the Net OPEB Liability	0.00645486%	0.00727263%
School's Proportionate Share of the Net OPEB Liability	\$ 251,845	\$ 388,942
School's Covered Payroll	\$ 709,636	\$ 832,571
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	46.72%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

**HOPE Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School's Contributions - OPEB*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution (1)	\$ 1,056	\$ 1,655	\$ 270	\$ 2,070
Contributions in Relation to the Contractually Required Contribution	<u>(1,056)</u>	<u>(1,655)</u>	<u>(270)</u>	<u>(2,070)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 72,756	\$ 104,900	\$ 260,157	\$ 450,114
OPEB Contributions as a Percentage of Covered Payroll (1)	1.45%	1.58%	0.10%	0.46%
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 732,236	\$ 709,636	\$ 832,571	\$ 1,040,664
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 5,559	\$ 2,467	\$ 8,340	\$ 9,415	\$ 7,869	\$ 15,046
<u>(5,559)</u>	<u>(2,467)</u>	<u>(8,340)</u>	<u>(9,415)</u>	<u>(7,869)</u>	<u>(15,046)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 478,117	\$ 345,159	\$ 308,855	\$ 298,560	\$ 377,024	\$ 334,106
1.16%	0.71%	2.70%	3.15%	2.09%	4.50%
\$ 8,403	\$ 7,462	\$ 9,666	\$ 10,309	\$ 11,560	\$ 10,583
<u>(8,403)</u>	<u>(7,462)</u>	<u>(9,666)</u>	<u>(10,309)</u>	<u>(11,560)</u>	<u>(10,583)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 840,346	\$ 746,169	\$ 966,600	\$ 1,030,869	\$ 1,155,992	\$ 1,058,331
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2018*

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**Note 1 - Net Pension Liability**

***Changes in Assumptions - SERS***

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
  - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

***Changes in Benefit Terms - SERS***

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

***Changes in Assumptions – STRS***

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

***Changes in Benefit Terms - STRS***

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



**Hope Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2018*

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**Note 2 - Net OPEB Liability**

***Changes in Assumptions – SERS***

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

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

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

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

***Changes in Assumptions – STRS***

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

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

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December 27, 2018

To the Board of Directors  
HOPE Academy Northwest Campus  
Cuyahoga County, Ohio  
1441 West 116th Street  
Cleveland, Ohio 44102

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of HOPE Academy Northwest Campus, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 27, 2018, in which we noted in our report that the School restated the net position balance to account for the implementation of GASB Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2018-001.

### **School's Response to the Finding**

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

### **Purpose of this Report**

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

*Hea & Associates, Inc.*

Medina, Ohio

**HOPE Academy Northwest Campus**  
**Cuyahoga County, Ohio**  
*Schedule of Findings and Responses*  
*June 30, 2018*

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number: 2018-001 – Material Non-compliance**

**Criteria:** Pursuant to Ohio Rev. Code (ORC) 3314.03(A)(6)(b) & (A)(27-28) community schools must adopt attendance and participation policies for their students and attendance records shall be made available to the Department of Education, Auditor of State and the School’s sponsor. The School’s attendance policy states that “Parents or a designated adult will be required to sign the child out when they leave and then sign in if they return.” The policy also states that unexcused absences include any absence where a student fails to provide appropriate written documentation of the absence.

**Condition:** During audit procedures, it was noted that the School was not retaining all supporting documentation for excused absences as required by the School’s policy as required by ORC 3314.03(A)(6)(b) & (A)(27-28).

**Cause:** The school accidentally disposed of parent sign out sheets following the end of the school year, and the School did not obtain written notes from the students’ parents for all students selected for testing.

**Effect:** Without internal controls over reporting enrollment statistics in EMIS operating effectively, there is an opportunity that the School’s funding could be calculated based on inaccurate information. Without proper supporting documentation it could be difficult for the School to support enrollment information reported through EMIS.

**Recommendation:** We recommend the School monitor procedures implemented over student absences to verify information reported in EMIS is accurate. We also recommend all supporting documentation required by the School’s attendance policy to be retained.

**Management’s Response:**

Finding was reviewed with personnel responsible for proper maintenance of sign out sheets to ensure record retention policy is properly followed in the future.

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OHIO AUDITOR OF STATE  
**KEITH FABER**



**HOPE ACADEMY NORTHWEST CAMPUS**

**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 12, 2019**