



Dave Yost • Auditor of State

HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Hope Learning Academy of Toledo
Lucas County
4234 Monroe Street
Toledo, Ohio 43606

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of Hope Learning Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of Hope Learning Academy of Toledo, Lucas County, Ohio, as of June 30, 2015, and the changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion and Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

April 29, 2016

**HOPE ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The discussion and analysis of the Hope Learning Academy of Toledo's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net cash position was \$88,676 at June 30, 2015.
- The Academy had operating revenues of \$913,813 and operating expenses of \$898,988 for fiscal year 2015.
- The Academy also received \$35,636 in non-operating federal grants during fiscal year 2015.
- Total change in net cash position for fiscal year 2015 was an increase of \$50,461, from a beginning balance of \$38,215 to a balance of \$88,676.

Using these Cash Basis Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis provide information about the activities of the Academy.

Reporting the Academy's Financial Activities

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position - Cash Basis

These documents look at all financial transactions and ask the question, "How did the Academy do financially during 2015?" The statement of net position – cash basis statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

These two statements report the Academy's net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the Academy as a whole, the cash basis financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

**HOPE ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The table below provides a summary of the Academy's net cash position for fiscal years 2014 and 2015.

Net Cash Position

	2015	2014
<u>Assets</u>		
Current assets	\$ 88,676	\$ 38,215
<u>Net Cash Position</u>		
Unrestricted	\$ 88,676	\$ 38,215

Over time, net position can serve as a useful indicator of the Academy's financial position. Total net cash position of the Academy increased \$50,461, which represents a 130% increase from net cash position at June 30, 2014.

The table below shows the changes in net position for fiscal year 2014 and 2015.

Change in Net Cash Position

	2015	2014
<u>Operating Revenues</u>		
Foundation payments	\$ 704,935	\$ 382,632
Contributions	200,450	643,246
Other	8,428	-
Total operating revenues	913,813	1,025,878
<u>Operating Expenses</u>		
Payroll.Salary	707,908	-
Purchased Services	143,074	849,012
Materials and supplies	14,638	37,933
Capital outlay	-	55,604
Other	33,368	45,114
Total operating expenses	898,988	987,663
<u>Non-operating revenues</u>		
Federal and state grants	35,636	-
Total non-operating revenues	35,636	-
Change in net cash position	50,461	38,215
Net cash position at beginning of year	38,215	-
Net cash position at end of year	\$ 88,676	\$ 38,215

This was the Academy's second year. There was an \$88,675 decrease in expenses, a large increase in Foundation revenue due to increased enrollment and a decrease in contributions for operations.

**HOPE ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

The Academy does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The Academy does not have any debt obligations outstanding as of June 30, 2015.

Current Financial Related Activities

The Academy's sponsor is the North Central Ohio Educational Service Center. The Academy is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

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

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Mandy Gossard France, Treasurer, North Central Ohio Educational Service Center, Marion Campus, 333 East Center Street, Marion, Ohio 43302, or email at mfrance@ncoesc.org.

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**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**STATEMENT OF NET CASH POSITION - CASH BASIS
JUNE 30, 2015**

Assets:

Equity in pooled cash and cash equivalents	<u><u>\$88,676</u></u>
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Net Cash Position:

Unrestricted	<u><u>\$88,676</u></u>
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See Accompanying Notes to the Basic Financial Statements

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30,2015

Operating Revenues:	
Foundation Payments	\$704,935
Fundraiser account Hope Learning Academy	3,789
Miscellaneous	4,639
Contributions	200,450
Total Operating Revenues	<u>913,813</u>
Operating Expenses:	
Payroll/salary	707,908
Purchased Services	143,074
Materials and supplies	14,638
Other	33,368
Total Operating Expenses	<u>898,988</u>
Operating Income	<u>14,825</u>
Non-Operating Revenue:	
Federal and state grants	<u>35,636</u>
Change in net cash position	50,461
Net cash position at beginning of year	<u>38,215</u>
Net cash position at end of year	<u><u>\$88,676</u></u>

See Accompanying Notes to the Basic Financial Statements

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The HOPE Learning Academy of Toledo (the "Academy") serves as a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is a charter school in the State of Ohio.

In early 2013, the people behind the start-up and of HOPE Learning Academy of Toledo, and the North Central Ohio Educational Service Center (Sponsor), entered into a Memorandum of Understanding (MOU) toward establishing a mutual framework governing the respective organizational relationships, responsibilities, activities, and cooperation. The goal was to establish a learning environment for students with learning disabilities to provide a safe and comforting environment while holding to the strict curriculum standards. The Academy, through its Sponsor, is the educational provider of a diverse education program. Its students are actively involved in learning activities as individual staff and faculty offer areas of expertise to meet the individual needs of each student in learning at the highest academic level.

The Academy was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2013 and ending on June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board that serves on a volunteer-basis. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Academy's accounting policies.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position and a statement of revenues, expenses and change in net position. The statement of net position presents the cash balance of the business-type activities of the Academy at fiscal year-end.

The statement of revenues, expenses and changes in net position compares disbursements with receipts for each function of the Academy's business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

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

B. Basis of Accounting

The Academy uses enterprise accounting to track and report on its financial activities. 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 or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Academy's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five-year spending plan and submit it to the Ohio Superintendent of Public Instruction.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates cash into separate funds.

E. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Inventory and Prepaid Items

The Academy reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

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

G. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

H. Operating Revenues and Expenses

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

I. Intergovernmental Revenue and Contributions

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program as well as free will Contributions are recognized as operating receipts in the accounting period in which payment is received by the Academy. Foundation payments for the fiscal year 2015 amounted to \$704,935, and Contributions amounted to \$200,450.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. The Academy received \$35,636 in grants and entitlements during fiscal year 2015.

J. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2015, the Academy has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made".

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 68 improves the information provided by local government employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 did not have an effect on the financial statements of the Academy.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

GASB Statement No. 71 addresses an issue regarding application of the transition provisions of GASB Statement 68 related to amounts associated with contributions by a local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of GASB Statement No. 71 did not have an effect on the financial statements of the Academy.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Academy prepared its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, Net Position/fund balances, and disclosures that, while material, cannot be determined at this time. The Academy can be fined and various other administrative remedies may be taken against the Academy.

NOTE 4 - DEPOSITS AND INVESTMENTS

At June 30, 2015, the carrying amount of the Academy's deposits was \$88,676. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$0 of the Academy's bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation. Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 5 - RISK MANAGEMENT

Property and Liability

The Academy is exposed to various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; injuries to contracted personnel; and natural disasters. The Academy is being provided comprehensive property, casualty, and liability insurance through First Insurance Group paid for as a contributed in-kind by Fox Investments of Ohio LLC the Landlord as a portion of the insurance on their building and property. Currently coverage is one million per occurrence, two million aggregate and two million umbrella liability for the Academy.

NOTE 6 - OTHER EMPLOYEE BENEFITS

The employees of the Academy are employed by the Academy. Policies and procedures are approved by the Governing Board of the Academy and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of staff.

NOTE 7 - SERVICES AGREEMENT

The Academy entered into a contract effective July 1, 2014 with the North Central Ohio Educational Service Center (Sponsor) for a treasurer, accounting services, and payable services, as well as EMIS/SOES data services. The Academy paid the Sponsor \$81,570 for services provided during fiscal year 2015, which included the 3% Sponsor fee based on the State Funding received by the Academy. The services provided included detailed statements of all revenues received, from whatever source, and detailed statements of all expenses for services rendered to or on behalf of the Academy, whether incurred on-site or off-site.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2015, expenses for purchased services were as follows:

Professional and technical services	<u>\$ 143,047</u>
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NOTE 9 - RENTAL AGREEMENT

The Academy entered into Lease agreement with Fox Investments of Ohio LLC ("Fox") and its Sponsor beginning August 1, 2013 through July 30, 2018, to provide class space (rent), restrooms, lunch/vending area, conference space, lawn service, snow removal, and utilities. Fox provided these for fiscal year 2015 including rent and utilities. See Note 14 for detail on in-kind contributions.

NOTE 10 - FISCAL AGENT AND ADMINISTRATIVE SERVICES

The Academy utilizes the services of the North Central Ohio Educational Service Center for a variety of services including its Community School Treasurer as the Academy's fiscal officer. The Academy does not directly pay the Treasurer; however, it does reimburse the North Central Ohio Educational Service Center for the services. See Note 7.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$5,248 for fiscal year 2015.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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, member contributions are allocated among investment choices by the member, and employer contributions 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$67,617 for fiscal year 2015.

Net Pension Liability

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities. The Academy had no net pension liability as of the end of June 2014, labor provided for the educational services to students, and the management, operation, and maintenance of the Academy was per a management agreement with the North Central Ohio Educational Service Center (Sponsor) for Fiscal Year 2014.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of 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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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 2015, the Academy's surcharge obligation was \$0.

The Academy's contributions for health care for the fiscal year ended June 30, 2015 was \$43. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) 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 reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board 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. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015 was \$0.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 13 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2015.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this could result in material contingencies of the Academy.

NOTE 14 - RELATED PARTY TRANSACTIONS

During fiscal year 2015, the Academy received in-kind contributions from Fox providing classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities. All in-kind contributions totaled \$89,206.

Below are the amounts contributed to the Academy by Fox:

<u>Fox</u>	
Rent	\$ 60,000
Snow- Lawn	5,615
Utilities	<u>23,591</u>
Total	<u>\$ 89,206</u>

The Academy's Landlord is Fox Investments of Ohio, LLC, an Ohio limited liability Company. As shown above, Fox has donated various in-kind services to the Academy. The Academy Superintendent, Daniel J. LaValley is one of the managers of Fox, and the membership in Fox is entirely owned by his extended LaValley family.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

NOTE 14 - RELATED PARTY TRANSACTIONS – (Continued)

During the fiscal year 2015 the Academy received donations from The LaValley Family Foundation for operating needs as well as specific purchase needs such as computers. The Academy Superintendent, Daniel J. LaValley is a Trustee member of The LaValley Family Foundation, a private Ohio foundation created by his Mother and Father.

The law firm of LaValley, LaValley Todak & Schaefer, Co. L.P.A. is available to assist the Academy and provide legal services. The law firm did not bill nor receive any fees from the Academy for the year ending 2015. The Academy Superintendent, Daniel J. LaValley is a shareholder/partner in this Law firm.



Dave Yost • Auditor of State

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

Hope Learning Academy of Toledo
Lucas County
4234 Monroe Street
Toledo, Ohio 43606

To the Board of Directors:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of Hope Learning Academy of Toledo, Lucas County, Ohio, (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 29, 2016, wherein we noted the Academy uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2015-001 to be a significant deficiency.

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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-002.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

April 29, 2016

HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2015

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

FINDING NUMBER 2015-001

Significant Deficiency - Financial Reporting

The Academy failed to adopt the provisions of Governmental Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions for the fiscal year ended June 30, 2015 as mandated by the Auditor of State Bulletin 2015-006. The preparation of the notes to the financial statements lacked understanding concerning the requirements of GASB Statement No. 68.

Under GASB No. 68, Governments that prepare Other Comprehensive Basis of Accounting (OCBOA) or Regulatory basis financial statements will not present their Net Pension Liability on their financial statements and need not disclose their Net Pension Liability in the notes. However, governments *statutorily* required to prepare GAAP statements, but that choose to prepare OCBOA or regulatory statements instead, will need to disclose pension information in their notes. The Academy is *statutorily* required to prepare GAAP statements under Ohio Law.

By not implementing GASB No. 68 the Academy is not fully disclosing the manner in which Accounting and Financial Reporting for Pensions are disclosed in the notes. Subsequently, the required footnotes were added to the report.

We recommend the Academy establish procedures to ensure any new GASB pronouncements are implemented by the Academy.

FINDING NUMBER 2015-002

Noncompliance Citation

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code § 117-2-03 (B) requires the Academy to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

For fiscal year 2015, the Academy prepared financial statements that, although formatted similarly to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. However, this presentation differs from accounting principles generally accepted in the United States of America (GAAP) as required by law. The accompanying financial statement omits assets, liabilities, fund equities and disclosures that, while material, cannot be reasonably determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the Academy can be fined and various other administrative remedies may be taken against the Academy.

**FINDING NUMBER 2015-002
(Continued)**

We recommend the Academy take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	Ohio Rev. Code § 117.38 and Ohio Admin Code § 117-2-03 (B) for not filing a GAAP annual financial report.	No	Not corrected and repeated as Finding 2015-002 in this report.

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HOPE LEARNING ACADEMY OF TOLEDO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 17, 2016