



OHIO AUDITOR OF STATE  
**KEITH FABER**





**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY  
JUNE 30, 2019 AND 2018**

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## 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 the Hope Learning Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the years ended June 30, 2019 and 2018, 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Hope Learning Academy of Toledo, Lucas County, Ohio, as of June 30, 2019 and 2018, and the respective changes in cash financial position thereof for the years 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.

**Emphasis of Matter**

As discussed in Note 13 to the financial statements the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Academy. 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, 2020, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

April 29, 2020

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)**

The discussion and analysis of 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, 2019. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

**FINANCIAL HIGHLIGHTS**

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

- In total, net cash position was \$194,094 at June 30, 2019.
- The Academy had operating revenues of \$897,607 and operating expenses of \$1,286,818 for fiscal year 2019.
- The Academy also received \$462,305 in non-operating revenue during fiscal year 2019.
- Total change in net cash position for fiscal year 2019 was an increase of \$73,094 over the prior fiscal year.

**USING THIS ANNUAL REPORT**

This report consists of three parts: the basic financial statements, notes to those statements, and required supplemental information. The basic financial statements include a Statement of Net Position – Cash Basis and a Statement of Revenues, Expenses and Changes in Net Position – Cash Basis.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position was prepared on a cash basis reflects how the Academy did financially during fiscal year 2019.

These statements report the Academy's 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 in the cash was actually paid or received.

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 and some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)**

**USING THIS ANNUAL REPORT (Continued)**

The Academy uses enterprise presentation for all of its activities.

***Statement of Net Position*** - The Statement of Net Position answers the question of how the Academy did financially during 2019. These statements report the Academy's 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 in the cash was actually paid or received.

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

**Table 1  
Statement of Net Position**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current Assets	\$ 194,094	\$ 121,000
<b>Net Cash Position</b>		
Unrestricted	194,094	121,000
Total Net Cash Position	\$ 194,094	\$ 121,000

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the Academy increased \$73,094, which represents a 60% increase from net cash position at June 30, 2018. The unrestricted net cash position of \$194,094 may be used for the Academy's ongoing operations.



**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)**

**USING THIS ANNUAL REPORT (Continued)**

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

**Table 2  
Change in Net Position**

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
State Aid	\$ 894,826	\$ 804,799
Other	2,781	3,793
<b>Total Operating Revenues</b>	897,607	808,592
<b>Operating Expenses</b>		
Salaries	883,653	809,591
Fringe Benefits	197,753	185,503
Purchased Services	151,450	169,139
Materials and Supplies	48,648	17,395
Other	5,314	6,628
<b>Total Operating Expenses</b>	1,286,818	1,188,256
<b>Operating Loss</b>	(389,211)	(379,664)
<b>Non-Operating Revenues:</b>		
Federal Grants	54,831	75,169
Contributions and Donations	407,474	405,360
<b>Total Non-Operating Revenues</b>	462,305	480,529
<b>Change in Net Position</b>	73,094	100,865
<b>Net Cash Position - Beginning of year</b>	121,000	20,135
<b>Net Cash Position - End of year</b>	\$ 194,094	\$ 121,000

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(UNAUDITED)**

The Academy had an increase in state aid of \$90,027, or 11.19%. Operating expenses increased \$98,563 or 8.29%. The net cash position of the Academy increased \$73,094.

**BUDGETING HIGHLIGHTS**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community Academy's contract with its Sponsor.

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

**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.

**CURRENT FINANCIAL ISSUES**

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

The full-time equivalent enrollment of the Academy for the year ended June 30, 2019 was 67 compared to a figure of 64 at the end of fiscal year 2018.

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

**CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, Treasurer, Massa Financial Solutions, LLC, 219 East Maple Street, Suite 202, North Canton, Ohio 44720 or by email at [dave@massasolutionsllc.com](mailto:dave@massasolutionsllc.com).

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

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2019

<b>Assets:</b>	
Current assets:	
Equity in Pooled Cash and Cash Equivalents. . . . .	\$ 194,094
<b>Net cash position:</b>	
Unrestricted. . . . .	<u>\$ 194,094</u>

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, 2019

<b>Operating revenues:</b>	
State Aid . . . . .	\$ 894,826
Other . . . . .	<u>2,781</u>
Total operating revenues . . . . .	<u>897,607</u>
<b>Operating expenses:</b>	
Salaries and wages. . . . .	883,653
Fringe benefits. . . . .	197,753
Purchased services. . . . .	151,450
Materials and supplies . . . . .	48,648
Other. . . . .	<u>5,314</u>
Total operating expenses. . . . .	<u>1,286,818</u>
Operating loss . . . . .	<u>(389,211)</u>
<b>Non-operating revenues:</b>	
Federal and State grants . . . . .	54,831
Contributions and Donations. . . . .	<u>407,474</u>
Total non-operating revenues . . . . .	<u>462,305</u>
Change in net position . . . . .	73,094
<b>Net cash position at beginning of year. . . . .</b>	<u>121,000</u>
<b>Net cash position at end of year . . . . .</b>	<u><u>\$ 194,094</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 1 - DESCRIPTION OF THE ENTITY**

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

In early 2013, the people behind the start-up and of Hope Learning Academy of Toledo 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 Academy's contract with the Sponsor was renewed through June 30, 2020. 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 this Note, 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.

***Basis of Presentation*** - The Academy's basic financial statements consist of a statement of net position – cash basis and a statement of revenues, expenses and change in net position – cash basis. The statement of net position – cash basis 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 – cash basis 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 THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

**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.

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

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

**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.

**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.

**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.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

**Net Cash Position (continued)**

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

**Intergovernmental Revenues** - The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenue in the accounting period in which it is received.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received.

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

Under the above programs the Academy recorded \$894,826 this fiscal year from the Foundation Program and Casino Tax Revenues and \$54,831 from Federal Grants.

**Operating and Non-Operating Revenues and Expenses** - Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2019.

Non-operating revenues are those revenues that are not generated directly from the primary activities of the Academy. Various federal and state grants, interest earnings, if any, and contributions and donations comprise the non-operating revenues of the Academy. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any comprise the non-operating expenses.

**Pensions/Other Postemployment Benefits (OPEB)** - For purposes of measuring the net pension/OPEB 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.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 3 - 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 - CASH AND CASH EQUIVALENTS**

The Academy maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2019, the book amount of the Academy's deposits was \$194,094 and the bank balance was \$205,849.

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

**NOTE 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.

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

**Employee Medical and Dental Benefits** - The Academy provides medical, vision, and dental insurance benefits through Anthem BCBS to all full-time employees. During the Academy year, the Academy paid 50% of the monthly premiums for all employees.



**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS**

***Net Pension Liability***

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 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 - Academy Employees Retirement System (SERS)***

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

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

Age and service requirements for retirement are as follows:

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

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

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

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

The Academy's contractually required contribution to SERS was \$10,612 for fiscal year 2019.

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

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

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

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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

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

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

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

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

The Academy's contractually required contribution to STRS was \$108,293 for fiscal year 2019.

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***Net Pension Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00220630%	0.00630097%	
Proportion of the net pension liability current measurement date	<u>0.00233890%</u>	<u>0.00630251%</u>	
Change in proportionate share	<u>0.00013260%</u>	<u>0.00000154%</u>	
Proportionate share of the net pension liability	\$ 133,953	\$ 1,385,780	\$ 1,519,733

***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.

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***Actuarial Assumptions – SERS (continued)***

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

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

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

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

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

**Discount Rate** Total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

**Actuarial Assumptions – STRS**

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$188,683	\$133,953	\$88,066

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**Actuarial Assumptions – STRS (continued)**

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

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$2,023,750	\$1,385,780	\$845,826

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Asset/Liability***

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

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

GASB 75 assumes the 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 asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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



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

***Plan Description - Academy Employees Retirement System (SERS) (continued)***

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

***Funding Policy*** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Academy's surcharge obligation was \$1,610.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$10,563 for fiscal year 2019.

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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

***Net OPEB Asset/Liability***

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB asset/liability was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.00226460%	0.00630097%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.00237280%</u>	<u>0.00630251%</u>	
Change in proportionate share	<u>0.00010820%</u>	<u>0.00000154%</u>	
Proportionate share of the net OPEB liability (asset)	\$ 65,827	\$ (101,274)	\$ (35,447)

***Actuarial Assumptions – SERS***

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

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

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

***Actuarial Assumptions – SERS (continued)***

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

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

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

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

***Discount Rate*** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond

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

***Actuarial Assumptions – SERS (continued)***

rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Academy's proportionate share of the net OPEB liability	\$79,877	\$65,827	\$54,704

  

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
Academy's proportionate share of the net OPEB liability	\$53,111	\$65,827	\$82,667

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

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

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

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

***Actuarial Assumptions – STRS (continued)***

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.

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

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

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

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

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

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

***Actuarial Assumptions – STRS (continued)***

***Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net OPEB asset	\$86,802	\$101,274	\$113,439
	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB asset	\$112,752	\$101,274	\$89,619

**NOTE 8 - CONTINGENCIES**

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

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

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2019.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 8 - CONTINGENCIES (continued)**

The first enrollment adjustment was paid in September 2019 and resulted in a \$3,944 payment to the Academy. The second and final enrollment adjustment occurred in December 2019 and resulted in a reduction of \$13 to the Academy's foundation revenue. These amounts are considered immaterial and were not recorded in the Academy's financial statements on the cash basis of accounting.

In addition, the Academy's contracts with their sponsor require payment based on revenues received from the State. The Academy is required to pay 3 percent of amounts received from enrollment adjustments back to their sponsor. Amounts were paid to the sponsor in September 2019 based on foundation revenues, net of FTE adjustments. Adjustments made were considered immaterial and were not required to be recorded in the Academy's financial statements on the cash basis of accounting.

**NOTE 9 - AGREEMENT WITH NORTH CENTRAL OHIO ESC**

The Academy contracted with the North Central Ohio Educational Service Center (NCOESC) as its sponsor to provide oversight services as required by Ohio law. Sponsorship fees are calculated as a three percent of state funds received by the Academy from the State of Ohio. For the fiscal year ended June 30, 2019, the total sponsorship fees paid totaled \$26,376.

During the fiscal year 2019, the Academy also contracted with NCOESC for services related to the management of the Academy's data through the Education Management Information System (EMIS). The Academy paid \$12,000 related to these services.

**NOTE 10 - PURCHASED SERVICES**

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

<u>Purchased Services</u>	<u>Amount</u>
Professional Services	\$ 107,343
Property Services	13,094
Utilities	1,844
Travel & Meetings	2,467
Communications	20,179
Contractual Trade	3,878
Pupil Transportation	2,645
Total	<u>\$ 151,450</u>

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

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

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

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

**NOTE 12 - RELATED PARTY TRANSACTIONS**

During fiscal year 2019, the Academy received in-kind contributions from the HOPE Learning Academy Foundation for classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities.

Below are the amounts contributed to the Academy by the Foundation:

Rent	\$	1
Snow-Lawn		6,223
Utilities		24,182
Total		30,406

The Academy’s Landlord is the HOPE Learning Academy Foundation (“the Foundation”), an Ohio non-profit company. As shown above, the Foundation has donated various in-kind services to the Academy. The Academy Superintendent, Daniel J. LaValley is the Director of HOPE Foundation, and the three Trustees of HOPE Foundation are his brother and two of his sisters.

During the fiscal year 2019, 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 2019. The Academy Superintendent, Daniel J. LaValley is a shareholder/partner in this Law firm.



**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 13 - SUBSEQUENT EVENT**

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

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(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, 2018. The intent of this discussion and analysis is to look at the Academy's' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

**FINANCIAL HIGHLIGHTS**

Key Financial Highlights for the Academy for the 2017-18 Academy year are as follows:

- In total, net cash position was \$121,000 at June 30, 2018.
- The Academy had operating revenues of \$808,592 and operating expenses of \$1,188,256 for fiscal year 2018.
- The Academy also received \$480,529 in non-operating revenue during fiscal year 2018.
- Total change in net cash position for fiscal year 2018 was an increase of \$100,865 over the prior fiscal year.

**USING THIS ANNUAL REPORT**

This report consists of three parts: the basic financial statements, notes to those statements, and required supplemental information. The basic financial statements include a Statement of Net Position – Cash Basis and a Statement of Revenues, Expenses and Changes in Net Position – Cash Basis.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position was prepared on a cash basis reflects how the Academy did financially during fiscal year 2018.

These statements report the Academy's 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 in the cash was actually paid or received.

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 and some not. Non-financial factors include the Academy's' student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)**

**USING THIS ANNUAL REPORT (Continued)**

The Academy uses enterprise presentation for all of its activities.

***Statement of Net Position*** - The Statement of Net Position answers the question of how the Academy did financially during 2018. These statements report the Academy's 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 in the cash was actually paid or received.

Table 1 provides a summary of the Academy's Net Position for fiscal year 2018 compared to fiscal year 2017.

**Table 1  
Statement of Net Position**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current Assets	\$ 121,000	\$ 20,135
 <b>Net Cash Position</b>		
Restricted	-	1,268
Unrestricted	121,000	18,867
Total Net Cash Position	\$ 121,000	\$ 20,135

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the Academy increased \$100,865, which represents a 501% increase from net cash position at June 30, 2017. The unrestricted net cash position of \$121,000 may be used for the Academy's ongoing operations.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)**

**USING THIS ANNUAL REPORT (Continued)**

***Statement of Revenues, Expenses and Changes in Net Position*** - Table 2 shows the change in Net Position for fiscal years 2018 and 2017, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**Table 2  
Change in Net Position**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
State Aid	\$ 804,799	\$ 624,405
Other	3,793	3,410
<b>Total Operating Revenues</b>	<b>808,592</b>	<b>627,815</b>
<b>Operating Expenses</b>		
Salaries	809,591	772,181
Fringe Benefits	185,503	207,109
Purchased Services	169,139	128,049
Materials and Supplies	17,395	26,656
Other	6,628	23,371
<b>Total Operating Expenses</b>	<b>1,188,256</b>	<b>1,157,366</b>
<b>Operating Loss</b>	<b>(379,664)</b>	<b>(529,551)</b>
<b>Non-Operating Revenues:</b>		
Federal Grants	75,169	89,782
Contributions and Donations	405,360	401,382
<b>Total Non-Operating Revenues</b>	<b>480,529</b>	<b>491,164</b>
<b>Change in Net Position</b>	<b>100,865</b>	<b>(38,387)</b>
<b>Net Cash Position - Beginning of year</b>	<b>20,135</b>	<b>58,522</b>
<b>Net Cash Position - End of year</b>	<b>\$ 121,000</b>	<b>\$ 20,135</b>

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)**

The Academy had an increase in state aid of \$180,394, or 23.89%. Operating expenses increased \$30,890 or 2.67%. The net cash position of the Academy increased \$100,865.

**BUDGETING HIGHLIGHTS**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community Academy's contract with its Sponsor.

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

**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.

**CURRENT FINANCIAL ISSUES**

The Academy is a community Academy and is funded through the State of Ohio Foundation Program. The Academy relies on this, as well as, State and Federal funds as its primary source of revenue. In 2018, the State raised the base per pupil funding to \$6,010, which is up from \$6,000 in the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be approximately \$200 per pupil.

The full-time equivalent enrollment of the Academy for the year ended June 30, 2018 was 64 compared to a figure of 58 at the end of fiscal year 2017.

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

**CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, Treasurer, Massa Financial Solutions, LLC, 219 East Maple Street, Suite 202, North Canton, Ohio 44720 or by email at [dave@massasolutionsllc.com](mailto:dave@massasolutionsllc.com).

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

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2018

<b>Assets:</b>	
Current assets:	
Equity in Pooled Cash and Cash Equivalents. . . . .	<u>\$ 121,000</u>
<b>Net cash position:</b>	
Unrestricted. . . . .	<u><u>\$ 121,000</u></u>

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, 2018

<b>Operating revenues:</b>	
State Aid . . . . .	\$ 804,799
Other . . . . .	<u>3,793</u>
Total operating revenues . . . . .	<u>808,592</u>
<b>Operating expenses:</b>	
Salaries and wages. . . . .	809,591
Fringe benefits. . . . .	185,503
Purchased services. . . . .	169,139
Materials and supplies . . . . .	17,395
Other. . . . .	<u>6,628</u>
Total operating expenses. . . . .	<u>1,188,256</u>
Operating loss . . . . .	<u>(379,664)</u>
<b>Non-operating revenues:</b>	
Federal and State grants . . . . .	75,169
Contributions and Donations. . . . .	<u>405,360</u>
Total non-operating revenues . . . . .	<u>480,529</u>
Change in net position . . . . .	100,865
<b>Net cash position at beginning of year. . . . .</b>	<u>20,135</u>
<b>Net cash position at end of year . . . . .</b>	<u><u>\$ 121,000</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 1 - DESCRIPTION OF THE ENTITY**

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

In early 2013, the people behind the start-up and of Hope Learning Academy of Toledo 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 Academy's contract with the Sponsor was renewed through June 30, 2020. 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 this Note, 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.

***Basis of Presentation*** - The Academy's basic financial statements consist of a statement of net position-cash basis and a statement of revenues, expenses and change in net position – cash basis. The statement of net position – cash basis 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 – cash basis 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 THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

**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.

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

**Cash and Cash Equivalents** - Cash received by the Academy is reflected as “Cash and Cash Equivalents” on the Statement of Net Position. The Academy did not have any investments during the period ended June 30, 2018.

**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.

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

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

***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.

***Intergovernmental Revenues*** - The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which it is received.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received.

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

Under the above programs the Academy recorded \$804,799 this fiscal year from the Foundation Program and Casino Tax Revenues and \$75,169 from Federal Grants.

***Operating and Non-Operating Revenues and Expenses*** - Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2018.

Non-operating revenues are those revenues that are not generated directly from the primary activities of the Academy. Various federal and state grants, interest earnings, if any, and contributions and donations comprise the non-operating revenues of the Academy. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any comprise the non-operating expenses.

***Pensions/Other Postemployment Benefits (OPEB)*** - For purposes of measuring the net pension/OPEB 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.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 3 - 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 - CASH AND CASH EQUIVALENTS**

The Academy maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2018, the book amount of the Academy's deposits was \$121,000 and the bank balance was \$124,224.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2018, none of the bank balance was exposed to custodial credit risk.

**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.

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

**Employee Medical and Dental Benefits** - The Academy provides medical, vision, and dental insurance benefits through Anthem BCBS to all full-time employees. During the Academy year, the Academy paid 50% of the monthly premiums for all employees.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS**

***Net Pension Liability***

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 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 - Academy Employees Retirement System (SERS)***

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

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 6 - DEFINED BENEFIT PENSIONS 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 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 Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The Academy contractually required contributions to SERS was \$9,986 for fiscal year 2018.

***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, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

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 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.

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

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

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 Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Academy’s contractually required contribution to STRS was \$100,308 for fiscal year 2018.

***Net Pension Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability current measurement date	0.00220630%	0.00166060%	
Proportionate share of the net pension liability	\$ 131,822	\$ 1,496,809	\$ 1,628,631

***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.

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***Actuarial Assumptions – SERS (continued)***

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

Key methods and assumptions used in calculating the total 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.

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:



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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

***Actuarial Assumptions – SERS (continued)***

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$182,934	\$131,822	\$89,004

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**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	1.00	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

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**NOTE 6 - DEFINED BENEFIT PENSIONS PLANS (continued)**

**Actuarial Assumptions – STRS (continued)**

consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$2,145,625	\$1,496,809	\$950,279

***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.

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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

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

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

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

***Health Care Plan Description*** - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS’ Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS’ health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS’ health care coverage. Most retirees and dependents choosing SERS’ health care coverage are over the age of 65 and therefore enrolled in a fully

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

***Plan Description - Academy Employees Retirement System (SERS) (continued)***

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, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Academy's surcharge obligation was \$1,353.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$10,356 for fiscal year 2018

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

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

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

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

***Funding Policy*** – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment 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 postemployment health care.

***Net OPEB Asset/Liability***

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

	SERS	STRS	Total
Proportion of Net OPEB Liability	0.00226460%	0.00630097%	
Proportionate share of the net OPEB liability	\$ 60,776	\$ 245,841	\$ 306,617

***Actuarial Assumptions – SERS***

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

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

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

***Actuarial Assumptions – SERS (continued)***

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of 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.

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

***Actuarial Assumptions – SERS (continued)***

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

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

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

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



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

***Actuarial Assumptions – SERS (continued)***

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Academy's proportionate share of the net OPEB liability	\$73,395	\$60,776	\$50,779

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$49,315	\$60,776	\$75,944

***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.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

***Actuarial Assumptions – STRS (continued)***

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:

<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 actual rate of return, without net value added by management.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

***Actuarial Assumptions – STRS (continued)***

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Academy's proportionate share of the net OPEB liability	\$330,037	\$245,841	\$179,298
	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$170,800	\$245,841	\$344,603

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 8 - CONTINGENCIES**

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

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

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

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

The first enrollment adjustment was paid in September 2018 and resulted in a \$45 payment being due to the Ohio Department of Education. Additional adjustments have also been determined as of this date. These amounts are considered immaterial and were not recorded in the Academy's financial statements on the cash basis of accounting.

In addition, the Academy's contracts with their sponsor require payment based on revenues received from the State. The Academy is required to pay 3 percent of amounts received from enrollment adjustments back to their sponsor. Amounts were paid to the sponsor in September 2018 based on foundation revenues, net of FTE adjustments. Adjustments made were considered immaterial and were not required to be recorded in the Academy's financial statements on the cash basis of accounting.

**NOTE 9 - AGREEMENT WITH NORTH CENTRAL OHIO ESC**

The Academy contracted with the North Central Ohio Educational Service Center (NCOESC) as its sponsor to provide oversight services as required by Ohio law. Sponsorship fees are calculated as a three percent of state funds received by the Academy from the State of Ohio. For the fiscal year ended June 30, 2018, the total sponsorship fees paid totaled \$19,551.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 9 - AGREEMENT WITH NORTH CENTRAL OHIO ESC (Continued)**

During the fiscal year 2018, the Academy also contracted with NCOESC for services related to the management of the Academy's data through the Education Management Information System (EMIS). The Academy paid \$12,000 related to these services.

Finally, for a portion of the fiscal year, the Academy contracted with NCOESC for Treasurer and Back Office accounting services. The services ended when the Academy transitioned these services to Massa Financial Solutions, LLC in October 2017. The amount paid to NCOESC was \$11,375.

**NOTE 10 - PURCHASED SERVICES**

For the period of July 1, 2017 through June 30, 2018, the Academy made the following purchased services commitments.

Purchased Services	Amount
Professional Services	\$ 138,534
Property Services	6,215
Utilities	1,283
Travel & Meetings	457
Communications	19,194
Contractual Trade	3,216
Pupil Transportation	240
Total	\$ 169,139

**NOTE 11 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2018, the Academy has (to the extent it applies to the cash basis of accounting) 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. See Note 7 for further information.

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

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 11 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES (Continued)**

interests 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 Academy.

GASB Statement No. 85 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Academy.

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 Academy.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

During fiscal year 2018, the Academy received in-kind contributions from the HOPE Learning Academy Foundation for classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities.

Below are the amounts contributed to the Academy by the Foundation:

Rent	\$ 30,000
Snow-Lawn	5,691
Utilities	18,535
Total	<u>\$ 54,226</u>

The Academy's Landlord is the HOPE Learning Academy Foundation (the Foundation), an Ohio non-profit company. As shown above, the Foundation has donated various in-kind services to the Academy. The Academy Superintendent, Daniel J. LaValley is the Director of HOPE Foundation, and the three Trustees of HOPE Foundation are his brother and two of his sisters.

During the fiscal year 2018, 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 2018. The Academy Superintendent, Daniel J. LaValley is a shareholder/partner in this Law firm.

**HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 13 - SUBSEQUENT EVENT**

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

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NorthwestRegion@ohioauditor.gov

**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 the Hope Learning Academy of Toledo, Lucas County, Ohio (the Academy) as of and for the years ended June 30, 2019 and 2018, 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, 2020, wherein we noted the Academy uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Academy.

***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 opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 2019-001.

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

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

April 29, 2020

HOPE LEARNING ACADEMY OF TOLEDO  
LUCAS COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2019 AND 2018

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

FINDING NUMBER 2019-001

**Noncompliance Citation**

**Ohio Rev. Code § 117.38(A)** 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 § 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

As a cost savings measure, the Academy prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumably material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Academy’s ability to evaluate and monitor the overall financial condition of the Academy. To help provide the users with more meaningful financial statements, the Academy should prepare its annual financial statements according to generally accepted accounting principles.

**Officials’ Response:**

The Academy has reported on the cash-basis of accounting since their inception as a cost saving measure.



234 Monroe Street, Toledo, Ohio 43606

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2019 AND 2018**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Finding has been reported since the Academy's inception in fiscal year 2014. Ohio Rev. Code § 117.38(A) and Ohio Admin. Code § 117-2-03(B) for reporting on a basis other than generally accepted accounting principles.	Not corrected and reissued as Finding 2019-001 in this report.	This finding reoccurred as a cost saving measure to the Academy. Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

# OHIO AUDITOR OF STATE KEITH FABER



**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 12, 2020**