



Dave Yost • Auditor of State

**HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis – For the Fiscal Year Ended June 30, 2017	3
Basic Financial Statements:	
Statement of Net Position – Cash Basis – June 30, 2017	6
Statement of Revenues, Expenses and Changes in Net Position - Cash Basis – For the Fiscal Year Ended June 30, 2017	7
Notes to the Basic Financial Statements – For the Fiscal Year Ended June 30, 2017.....	8
Management's Discussion and Analysis – For the Fiscal Year Ended June 30, 2016	22
Basic Financial Statements:	
Statement of Net Position – Cash Basis – June 30, 2016	25
Statement of Revenues, Expenses and Changes in Net Position - Cash Basis – For the Fiscal Year Ended June 30, 2016	26
Notes to the Basic Financial Statements – For the Fiscal Year Ended June 30, 2016.....	27
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	41
Schedule of Findings	43
Summary Schedule of Prior Audit Findings (Prepared by Management)	44

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Hope Learning Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the years ended June 30, 2017 and 2016, 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 modified 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 cash financial position of the Hope Learning Academy of Toledo, Lucas County, Ohio, as of June 30, 2017 and 2016, and the respective changes in cash financial position 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.

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 February 27, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

February 27, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
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, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, net cash position was \$20,135 at June 30, 2017.
- The Academy had operating revenues of \$627,815 and operating expenses of \$1,157,366 for fiscal year 2017.
- The Academy also received \$491,164 in non-operating revenue during fiscal year 2017.
- Total change in net cash position for fiscal year 2017 was a decrease of \$38,387, from a beginning balance of \$58,522 to a balance of \$20,135.

Using these Cash Basis Basic Financial Statements

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

Reporting the Academy's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the Academy do financially during 2017?" The statement of net position – cash basis statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)

The table below provides a summary of the Academy's net cash position for fiscal years 2017 and 2016.

	Net Cash Position	
	2017	2016
<u>Assets</u>		
Current assets	\$ 20,135	\$ 58,522
<u>Net Cash Position</u>		
Restricted	1,268	2,007
Unrestricted	18,867	56,515
Total net cash position	\$ 20,135	\$ 58,522

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the Academy decreased \$38,387, which represents a 65.6% decrease from net cash position at June 30, 2016. A portion of the Academy's net cash position, \$1,268, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$18,867 may be used for the Academy's ongoing operations.

The table below shows the changes in net position for fiscal year 2017 and 2016.

	Change in Net Cash Position	
	2017	2016
<u>Operating Revenues</u>		
Foundation payments	\$ 624,405	\$ 700,649
Other revenues	3,410	3,367
Total operating revenues	627,815	704,016
<u>Operating Expenses</u>		
Salaries and wages	772,181	674,682
Fringe benefits	207,109	199,436
Purchased services	128,049	131,200
Materials and supplies	26,656	36,450
Other	23,371	31,418
Total operating expenses	1,157,366	1,073,186
<u>Non-operating revenues</u>		
Federal and state grants	89,782	85,841
Contributions	401,382	253,175
Total non-operating revenues	491,164	339,016
Change in net cash position	(38,387)	(30,154)
Net cash position at beginning of year	58,522	88,676
Net cash position at end of year	\$ 20,135	\$ 58,522

The Academy had an increase in contributions of \$148,207, or 58.54%. Foundation revenue decreased \$76,244 or 10.88%. Operating expenses increased \$84,180 or 7.84% primarily due to an increase in salary and benefit expenses. The net cash position of the Academy decreased \$38,387.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The Academy does not have any debt obligations outstanding as of June 30, 2017.

Current Financial Related Activities

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

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

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. 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.

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

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

Assets:

Current assets:

Equity in pooled cash and cash equivalents	<u>\$ 20,135</u>
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Net cash position:

Restricted for student activities.	1,268
Unrestricted.	<u>18,867</u>
Total net cash position.	<u><u>\$ 20,135</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, 2017

Operating revenues:	
Foundation payments.	\$ 624,405
Other revenues.	3,410
Total operating revenues	<u>627,815</u>
Operating expenses:	
Salaries and wages.	772,181
Fringe benefits.	207,109
Purchased services.	128,049
Materials and supplies	26,656
Other.	23,371
Total operating expenses.	<u>1,157,366</u>
Operating loss.	<u>(529,551)</u>
Non-operating revenues:	
Federal and state grants.	89,782
Contributions.	401,382
Total non-operating revenues.	<u>491,164</u>
Change in net cash position	(38,387)
Net cash position at beginning of year.	<u>58,522</u>
Net cash position at end of year	<u><u>\$ 20,135</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Hope Learning Academy 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 school in the State of Ohio.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Basis of Accounting

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Capital Assets

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

F. Inventory and Prepaid Items

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

G. Net Cash Position

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

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

H. Operating Revenues and Expenses

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

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

I. Intergovernmental Revenue and Contributions

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the Academy. Foundation payments for the fiscal year 2017 amounted to \$624,405.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. The Academy received \$89,782 in grants and entitlements during fiscal year 2017 and \$401,382 in donations and contributions.

J. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the Academy has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

At June 30, 2017, the carrying amount of the Academy's deposits was \$20,135. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the Academy's entire bank balance of \$20,135 was covered by the Federal Deposit Insurance Corporation.

NOTE 5 - RISK MANAGEMENT

Property and Liability

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

NOTE 6 - OTHER EMPLOYEE BENEFITS

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

NOTE 7 - SERVICES AGREEMENT

The Academy entered into a contract for fiscal year 2017 with the North Central Ohio Educational Service Center (Sponsor) for a treasurer, accounting services, and payable services, as well as EMIS/SOES data services. The Academy paid the Sponsor \$72,409 for services provided during fiscal year 2017, which included the 3 percent Sponsor fee based on the State Funding received by the Academy. The services provided included detailed statements of all revenues received, from whatever source, and detailed statements of all expenses for services rendered to or on behalf of the Academy, whether incurred on-site or off-site.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2017, expenses for purchased services were as follows:

Professional and Technical Services	\$ 107,185
Travel and Meeting Expenses	443
Communications	<u>20,421</u>
Total	<u>\$ 128,049</u>

NOTE 9 - RENTAL AGREEMENT

The Academy entered into Lease agreement with Fox Investments of Ohio LLC (“Fox”) and its Sponsor beginning August 1, 2013 through July 30, 2018, to provide class space (rent), restrooms, lunch/vending area, conference space, lawn service, snow removal, and utilities. Fox provided these for fiscal year 2017 including rent and utilities. See Note 14 for detail on in-kind contributions.

NOTE 10 - FISCAL AGENT AND ADMINISTRATIVE SERVICES

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

NOTE 11 - PENSION 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 net pension liability represents the Academy’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$11,082 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - County licensed teachers participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2017, 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 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS Ohio was \$97,023 for fiscal year 2017.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00124520%	0.00491884%	
Proportion of the net pension liability current measurement date	<u>0.00181580%</u>	<u>0.00613491%</u>	
Change in proportionate share	<u>0.00057060%</u>	<u>0.00121607%</u>	
Proportionate share of the net pension liability	\$ 132,900	\$ 2,053,539	\$ 2,186,439

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, 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	3 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

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% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

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 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	\$ 175,951	\$ 132,900	\$ 96,864

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 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 (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$ 2,728,987	\$ 2,058,539	\$ 1,483,759

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$950, \$670, and \$43, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Academy did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2017.

B. State Foundation Funding

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

The first enrollment adjustment was paid in September 2017 and resulted in a \$122 payment to the Academy. The second and final enrollment adjustment was paid through the January 2018 foundation settlement report, and resulted in a \$14 payment to the Academy. These amounts are considered immaterial and were not required to be 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 2017 and January 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 14 - RELATED PARTY TRANSACTIONS

During fiscal year 2017, the Academy received in-kind contributions from Fox providing classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities. All in-kind contributions totaled \$82,851.

Below are the amounts contributed to the Academy by Fox:

Rent	\$	60,000
Snow-Lawn		4,589
Utilities		<u>18,262</u>
Total	\$	<u><u>82,851</u></u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

NOTE 14 - RELATED PARTY TRANSACTIONS – (Continued)

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

During the fiscal year 2017, 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.

NOTE 15 – SUBSEQUENT EVENTS

On October 16, 2017, the Academy entered into a contract with Massa Solutions LLC to provide Treasurer Services replacing North Central Ohio Educational Service Center.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net cash position was \$58,522 at June 30, 2016.
- The Academy had operating revenues of \$704,016 and operating expenses of \$1,073,186 for fiscal year 2016.
- The Academy also received \$339,016 in non-operating revenue during fiscal year 2016.
- Total change in net cash position for fiscal year 2016 was a decrease of \$30,154, from a beginning balance of \$88,676 to a balance of \$58,522.

Using these Cash Basis Basic Financial Statements

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

Reporting the Academy's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the Academy do financially during 2016?" The statement of net position – cash basis statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

The table below provides a summary of the Academy's net cash position for fiscal years 2016 and 2015.

	Net Cash Position	
	2016	2015
<u>Assets</u>		
Current assets	\$ 58,522	\$ 88,676
<u>Net Cash Position</u>		
Restricted	2,007	-
Unrestricted	56,515	88,676
Total net cash position	\$ 58,522	\$ 88,676

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the Academy decreased \$30,154, which represents a 34% decrease from net cash position at June 30, 2015. A portion of the Academy's net cash position, \$2,007, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$56,515 may be used for the Academy's ongoing operations.

The table below shows the changes in net position for fiscal year 2016 and 2015.

	2016	2015
<u>Operating Revenues</u>		
Foundation payments	\$ 700,649	\$ 704,935
Sales/charges for services	3,367	-
Other	-	8,428
Total operating revenues	704,016	713,363
<u>Operating Expenses</u>		
Salaries and wages	674,682	707,908
Fringe benefits	199,436	-
Purchased services	131,200	143,074
Materials and supplies	36,450	14,638
Other	31,418	33,368
Total operating expenses	1,073,186	898,988
<u>Non-operating revenues</u>		
Federal and state grants	85,841	35,636
Contributions	253,175	200,450
Total non-operating revenues	339,016	236,086
Change in net cash position	(30,154)	50,461
Net cash position at beginning of year	88,676	38,215
Net cash position at end of year	\$ 58,522	\$ 88,676

The Academy had an increase in contributions of \$52,725, or 26.30% and an increase in Federal and State non-operating grants of \$50,205. Operating expenses increased \$174,198 or 19.38% primarily due to an increase in salary and benefit expenses. The net cash position of the Academy decreased \$30,154.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The Academy does not have any debt obligations outstanding as of June 30, 2016

Current Financial Related Activities

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

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

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. 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.

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

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

Assets:

Current assets:

Equity in pooled cash and cash equivalents	<u>\$ 58,522</u>
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Net cash position:

Restricted for student activities.	2,007
Unrestricted.	<u>56,515</u>
Total net cash position.	<u><u>\$ 58,522</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, 2016

Operating revenues:	
Foundation payments.	\$ 700,649
Sales/charges for services.	3,367
Total operating revenues	<u>704,016</u>
Operating expenses:	
Salaries and wages.	674,682
Fringe benefits.	199,436
Purchased services.	131,200
Materials and supplies	36,450
Other.	31,418
Total operating expenses.	<u>1,073,186</u>
Operating loss.	<u>(369,170)</u>
Non-operating revenues:	
Federal and state grants.	85,841
Contributions.	253,175
Total non-operating revenues.	<u>339,016</u>
Change in net cash position	(30,154)
Net cash position at beginning of year.	<u>88,676</u>
Net cash position at end of year	<u><u>\$ 58,522</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Hope Learning Academy 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 school in the State of Ohio.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Basis of Accounting

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Capital Assets

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

F. Inventory and Prepaid Items

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

G. Net Cash Position

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

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

H. Operating Revenues and Expenses

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

I. Intergovernmental Revenue and Contributions

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the Academy. Foundation payments for the fiscal year 2016 amounted to \$700,649.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. The Academy received \$85,841 in grants and entitlements during fiscal year 2016 and \$253,175 in donations and contributions.

J. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the Academy has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Academy.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Academy.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Academy.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

At June 30, 2016, the carrying amount of the Academy's deposits was \$58,522. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the Academy's entire bank balance of \$62,318 was covered by the Federal Deposit Insurance Corporation.

NOTE 5 - RISK MANAGEMENT

Property and Liability

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

NOTE 6 - OTHER EMPLOYEE BENEFITS

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

NOTE 7 - SERVICES AGREEMENT

The Academy entered into a contract effective July 1, 2014 with the North Central Ohio Educational Service Center (Sponsor) for a treasurer, accounting services, and payable services, as well as EMIS/SOES data services. The Academy paid the Sponsor \$91,600 for services provided during fiscal year 2016, which included the 3% Sponsor fee based on the State Funding received by the Academy. The services provided included detailed statements of all revenues received, from whatever source, and detailed statements of all expenses for services rendered to or on behalf of the Academy, whether incurred on-site or off-site.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2016, expenses for purchased services were as follows:

Professional and Technical Services	\$ 108,587
Property Services	7,038
Travel and Meeting Expenses	1,355
Communications	<u>14,220</u>
Total	<u>\$ 131,200</u>

NOTE 9 - RENTAL AGREEMENT

The Academy entered into Lease agreement with Fox Investments of Ohio LLC (“Fox”) and its Sponsor beginning August 1, 2013 through July 30, 2018, to provide class space (rent), restrooms, lunch/vending area, conference space, lawn service, snow removal, and utilities. Fox provided these for fiscal year 2016 including rent and utilities. See Note 14 for detail on in-kind contributions.

NOTE 10 - FISCAL AGENT AND ADMINISTRATIVE SERVICES

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

NOTE 11 - PENSION 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 net pension liability represents the Academy’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$7,079 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

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 Ohio. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

STRS Ohio issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

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

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

The Academy's contractually required contribution to STRS Ohio was \$87,376 for fiscal year 2016.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS Ohio	Total
Proportionate share of the net pension liability	\$ 71,052	\$ 1,359,424	\$ 1,430,476
Proportion of the net pension liability	0.001245%	0.0049188%	

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 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 net pension liability calculated using the discount rate of 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 98,524	\$ 71,052	\$ 47,919

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio's investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates 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	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 11 - PENSION PLANS - (Continued)

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 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 (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 1,888,342	\$ 1,359,424	\$ 912,144

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2016 and 2015 were \$670 and \$43, respectively. 100 percent has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Academy did not have any contributions to health care in fiscal years 2016 or 2015.

NOTE 13 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2016.

B. State Foundation Funding

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2016.

The first enrollment adjustment was paid in September 2016 and resulted in a \$8,097 payment to the Academy. The second, third and fourth (final) enrollment adjustments were made in September 2016, April 2017, and June 2017, respectively. These resulted in a total amount owed by the Academy of \$17. These amounts are considered immaterial and were not required to be recorded in the Academy's financial statements on the cash basis of accounting.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 13 – CONTINGENCIES – (Continued)

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 throughout fiscal year 2017 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 14 - RELATED PARTY TRANSACTIONS

During fiscal year 2016, the Academy received in-kind contributions from Fox providing classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities. All in-kind contributions totaled \$86,654.

Below are the amounts contributed to the Academy by Fox:

Rent	\$	60,000
Snow-Lawn		5,428
Utilities		<u>21,226</u>
Total	\$	<u>86,654</u>

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

During the fiscal year 2016, 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 2016. The Academy Superintendent, Daniel J. LaValley is a shareholder/partner in this Law firm.

NOTE 15 - SIGNIFICANT SUBSEQUENT EVENT

Mandy France resigned as Treasurer effective June 30, 2016 and Alina Nemeč became Treasurer effective July 1, 2016.

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Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the Hope Learning Academy of Toledo, Lucas County, Ohio (the Academy) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 27, 2018, wherein we noted the Academy uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our 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 2017-001.

Academy's Response to Findings

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response 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 communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 27, 2018

HOPE LEARNING ACADEMY OF TOLEDO
LUCAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2017 AND 2016

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

FINDING NUMBER 2017-001

Noncompliance Citation

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

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the Academy to prepare its annual financial report in accordance with 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, fund equities, and disclosures that, while 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.

We recommend the Academy prepare its financial statements in accordance with generally accepted accounting principles.

Officials' Response:

The Academy has reported on the cash-basis of accounting since their inception as a cost saving measure. Under their new Treasurer, the Academy is looking to change their accounting basis to generally accepted accounting principles.



234 Monroe Street, Toledo, Ohio 43606

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017 AND 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Significant Deficiency over Financial Reporting due to not implementing Government Accounting Standards Board Statement No. 68.	Fully Corrected.	
2015-002	Finding has been issued since the Academy's inception in FY 2014. Ohio Rev. Code § 117.38 and Ohio Admin Code § 117-2-03 (B) for reporting on a basis other than generally accepted accounting principles.	Not corrected and repeated as Finding 2017-001 in this report.	The Academy has reported on the cash-basis of accounting since their inception as a cost saving measure. Under their new Treasurer, the Academy is looking to change their accounting basis to generally accepted accounting principles.



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HOPE LEARNING ACADEMY OF TOLEDO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 13, 2018