

HOPE LEARNING ACADEMY OF
TOLEDO
LUCAS COUNTY, OHIO

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 and 2020



Rea & associates

www.reacpa.com

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(800) 282-0370

Members of the Board
Hope Learning Academy of Toledo
4234 Monroe Street
Toledo, Ohio 43606

We have reviewed the *Independent Auditor's Report* of the Hope Learning Academy of Toledo, Lucas County, prepared by Rea & Associates, Inc., for the audit period July 1, 2019 through June 30, 2021. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

December 10, 2021

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Hope Learning Academy of Toledo
4234 Monroe Street
Toledo, OH 43606

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Hope Learning Academy of Toledo, Lucas County, Ohio, as of June 30, 2021 and 2020, 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 & 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 November 15, 2021 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.

Rea & Associates, Inc.

Rea & Associates, Inc.
Gahanna, Ohio
November 15, 2021

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 (UNAUDITED)

The discussion and analysis of Hope Learning Academy of Toledo (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy for the 2020-21 Academy year are as follows:

- In total, net cash position was \$65,405 at June 30, 2021.
- The Academy had operating revenues of \$792,992 and operating expenses of \$1,440,145 for fiscal year 2021.
- The Academy also received \$439,723 in non-operating revenue during fiscal year 2021.
- Total change in net cash position for fiscal year 2021 was an decrease of \$207,430 over the prior fiscal year.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position was prepared on a cash basis reflects how the Academy did financially during fiscal year 2021.

These statements report the Academy's Net Position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash was actually paid or received.

These two statements report the Academy's net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the Academy as a whole, the cash basis financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021 (UNAUDITED)**

Table 1 provides a summary of the Academy’s Net Cash Position for fiscal year 2021 compared to fiscal year 2020.

**Table 1
Net Cash Position**

| | 2021 | 2020 |
|--------------------------|-------------|-------------|
| Assets | | |
| Current Assets | \$ 65,405 | \$ 272,835 |
| Net Cash Position | | |
| Unrestricted | 65,405 | 272,835 |
| Total Net Cash Position | \$ 65,405 | \$ 272,835 |

Over time, net position can serve as a useful indicator of a government’s financial position. Total net cash position of the Academy decreased \$207,430 which represents a 76% decrease from net cash position at June 30, 2020. The unrestricted net cash position of \$65,405 may be used for the Academy’s ongoing operations.

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HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021 (UNAUDITED)

Table 2 shows the change in Net Position for fiscal years 2021 and 2020, as well as a listing of revenues and expenses.

Table 2
Change in Net Cash Position

| | 2021 | 2020 |
|--|-------------------------|--------------------------|
| Operating Revenues | | |
| State Aid | \$ 787,423 | \$ 988,901 |
| Other | 5,569 | 10,474 |
| Total Operating Revenues | <u>792,992</u> | <u>999,375</u> |
| Operating Expenses | | |
| Salaries | 967,501 | 942,277 |
| Fringe Benefits | 232,974 | 215,797 |
| Purchased Services | 155,839 | 226,068 |
| Materials and Supplies | 63,538 | 104,118 |
| Capital Outlay | 16,377 | - |
| Other | 3,916 | 5,177 |
| Total Operating Expenses | <u>1,440,145</u> | <u>1,493,437</u> |
| Operating Loss | (647,153) | (494,062) |
| Non-Operating Revenues: | | |
| State and Federal Grants | 184,228 | 162,342 |
| Other Grants | - | 14,097 |
| PPP Loan Proceeds | - | 181,100 |
| Contributions and Donations | 255,495 | 215,264 |
| Total Non-Operating Revenues | <u>439,723</u> | <u>572,803</u> |
| Change in Net Cash Position | (207,430) | 78,741 |
| Net Cash Position - Beginning of year | <u>272,835</u> | <u>194,094</u> |
| Net Cash Position - End of year | <u><u>\$ 65,405</u></u> | <u><u>\$ 272,835</u></u> |

The decrease in state aid and purchased services was due to a decline in enrollment for fiscal year 2021. The decrease in other operating revenue was a result of a PPP loan from the Small Business Administration (SBA) that was received in the prior year.

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 (UNAUDITED)

BUDGETING HIGHLIGHTS

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

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

CAPITAL ASSETS

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

DEBT ADMINISTRATION

The Academy does not have any debt obligations as of June 30, 2021, see Note 14.

CURRENT FINANCIAL ISSUES

The Academy is a community school and is funded through the State of Ohio Foundation Program. The Academy relies on this, as well as, State and Federal funds as its primary source of revenue. In 2021, the State increased the base per pupil funding to \$5,980 as a result of better than anticipated economic impacts of COVID-19 to the State economy. This was an increase of \$49 from the previous year. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be approximately \$200 per pupil.

The full-time equivalent enrollment of the Academy for the year ended June 30, 2021 was 56 compared to a figure of 75 at the end of fiscal year 2020.

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

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, 4234 Monroe Street, Toledo, OH 43606 or by email at dave@massasolutionsllc.com.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

Statement of Net Position – Cash Basis

At June 30, 2021

Assets:

Current Assets:

| | |
|--|-----------|
| Equity in Pooled Cash and Cash Equivalents | \$ 65,405 |
|--|-----------|

Net Cash Position:

| | |
|--------------|--------|
| Unrestricted | 65,405 |
|--------------|--------|

| | |
|-------------------------|------------------|
| Total Net Cash Position | <u>\$ 65,405</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, 2021

Operating Revenues:

| | | |
|---------------------------------|----|----------------|
| State Aid | \$ | 787,423 |
| Other | | 5,569 |
| Total Operating Revenues | | <u>792,992</u> |

Operating Expenses:

| | | |
|---------------------------------|--|------------------|
| Salaries | | 967,501 |
| Fringe Benefits | | 232,974 |
| Purchased Services | | 155,839 |
| Materials and Supplies | | 63,538 |
| Capital Outlay | | 16,377 |
| Other | | 3,916 |
| Total Operating Expenses | | <u>1,440,145</u> |

Operating Loss (647,153)

Non-Operating Revenues:

| | | |
|-------------------------------------|--|----------------|
| State and Federal Grants | | 184,228 |
| Contributions and Donations | | 255,495 |
| Total Non-Operating Revenues | | <u>439,723</u> |

Change in Net Position (207,430)

| | | |
|--|----|----------------|
| Net Cash Position - Beginning of year | | <u>272,835</u> |
| Net Cash Position - End of year | \$ | <u>65,405</u> |

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - DESCRIPTION OF THE ENTITY

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

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

The Academy was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2013 and ending on June 30, 2018. The Academy's contract with the Sponsor was renewed through June 30, 2020, with an additional renewal through June 30, 2023. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

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

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

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

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

Cash and Cash Equivalents - Cash received by the Academy is reflected as “Cash and Cash Equivalents” on the Statement of Net Position. The Academy did not have any investments during the period ended June 30, 2021.

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

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

Net Cash Position - Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Intergovernmental Revenues - The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all payment is received by the Academy.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Grants and entitlements are recognized as non-operating revenues in the accounting period in which payment is received by the Academy. The Academy participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the Academy recorded \$787,423 this fiscal year from the Foundation Program and Casino Tax Revenues and \$184,228 from State and Federal Grants.

Operating and Non-Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2021.

Non-operating revenues are those revenues that are not generated directly from the primary activities of the Academy. Various federal and state grants, interest earnings, if any, and contributions and donations comprise the non-operating revenues of the Academy.

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

Long-Term Obligations – The Academy's cash basis financial statements do not report liabilities for loans and other long term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not a cash transaction, neither another financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when made.

NOTE 3 – COMPLIANCE

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 4 - CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The Academy maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2021, the carrying amount of the Academy's deposits was \$65,405 and the bank balance was \$65,924. The total balance was covered by FDIC and deemed.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2021 none of the bank balance was exposed to custodial credit risk.

NOTE 5 - RISK MANAGEMENT

Property & 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. Settlement claims have not exceeded this coverage in any of the past three years. There have been no significant reductions in coverage from last year.

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

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

NOTE 6 - DEFINED BENEFIT PENSIONS PLANS

The net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the cash basis framework.

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Net Pension Liability/Net OPEB Liability (Asset)

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension/OPEB liability (asset) 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/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB 68/75 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 (assets) 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/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 7 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Age and service requirements for retirement are as follows:

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

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2021, the allocation to pension, death benefits, and Medicare B was 14.0 percent. SERS did not allocate employer contributions to the Health Care Fund for fiscal year 2021.

The Academy's contractually required contribution to SERS was \$28,707 for fiscal year 2021.

Plan Description - State Teachers Retirement System (STRS)

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Effective August 1, 2017 – July 1, 2019, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2019 – July 1, 2021, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 28 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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

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

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2021, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2021 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$106,800 for fiscal year 2021.

Net Pension Liability

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------------|--------------------|--------------|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.0024411% | 0.00658853% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | <u>0.0037695%</u> | <u>0.00662493%</u> | |
| Change in Proportionate Share | <u>0.0013284%</u> | <u>0.00003640%</u> | |
| Proportionate Share of the Net Pension Liability | \$ 249,323 | \$ 1,602,997 | \$ 1,852,320 |

Actuarial Assumptions - SERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Future benefits for all current plan members were projected through 2130.

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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, 2020, are presented below:

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

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

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

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

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Discount Rate Total pension liability was calculated using the discount rate of 7.50 percent. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on 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 investments was applied to all periods of projected benefits to determine the total pension liability.

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 341,542 | \$ 249,323 | \$ 171,949 |

Changes since measurement date:

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of SERS, including the fair value of SERS’ investment portfolio. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that may be recognized in subsequent periods cannot be determined with half of the fiscal year remaining. In addition, the impact on SERS’ future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

At its September meeting 2020, the Board unanimously voted to approve a 0.5% cost-of-living adjustment (COLA) increase for eligible retirees and beneficiaries in 2021. Previously, COLAs were suspended from 2018 through 2020.

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2020, actuarial valuation, are presented below:

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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| | |
|----------------------------|---|
| Inflation | 2.50 percent |
| Projected Salary Increases | 12.50 percent at age 20 to 2.50 percent at age 65 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation |
| Discount Rate of Return | 7.45 percent |
| Projected Payroll Growth | 3.00 percent |
| Cost-of-Living Adjustments | 0.00 percent |

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

The actuarial assumptions used in the June 30, 2020 valuation, were based on the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2020. Therefore, the long-term expected rate of return on investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2020.

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Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate The following table represents the Academy's proportionate share of the net pension liability as of June 30, 2020, calculated using the current period discount rate assumption of 7.45 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 2,282,389 | \$ 1,602,997 | \$ 1,027,269 |

NOTE 7 – DEFINED BENEFIT OPEB PLANS

The Net OPEB liability (asset) is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the cash basis framework.

See Note 6 for a description of the net OPEB liability (asset).

Plan Description - School Employees Retirement System (SERS)

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

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

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2021, SERS did not allocate any employer contributions to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2021, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2021, the Academy's surcharge obligation was \$4,041.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2021, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability (Asset)

The net OPEB liability (asset) was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability (asset) was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

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| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------------|--------------------|--------------|
| Proportion of the Net OPEB Liability/asset Prior Measurement Date | 0.0025173% | 0.00658853% | |
| Proportion of the Net OPEB Liability/asset Current Measurement Date | <u>0.0039675%</u> | <u>0.00662493%</u> | |
| Change in Proportionate Share | <u>0.0014502%</u> | <u>0.00003640%</u> | |
| Proportionate Share of the Net OPEB Liability/(asset) | \$ 86,226 | \$ (116,434) | \$ (30,208) |

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2020, are presented below:

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NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

| | |
|---------------------------------------|---|
| Inflation | 3.00 percent |
| Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| Investment Rate of Return | 7.50 percent net of investment expense, including inflation |
| Municipal Bond Index Rate | |
| Measurement Date | 3.13 percent |
| Prior Measurement Date | 3.62 percent |
| Single Equivalent Interest Rate | |
| Measurement Date | 3.22 percent, net of plan investment expense, including price inflation |
| Prior Measurement Date | 3.70 percent, net of plan investment expense, including price inflation |
| Health Care Cost Trend Rate | |
| Pre-Medicare | 7.00 percent - 4.75 percent |
| Medicare | 5.25 percent - 4.75 percent |

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

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

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

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

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| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| Cash | 1.00 % | 0.50 % |
| US 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 | 100.00 % | |

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2020 was 2.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2020 was 3.22 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the plan at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and no contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2034. However, since SERS' actuaries indicate the fiduciary net position is projected to be depleted at a future measurement date, the single equivalent interest rate is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by the Fidelity General Obligation 20-year Municipal Bond Index rate of 2.45 percent, as of June 30, 2020 (i.e., municipal bond rate).

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.22 percent) and higher (4.22 percent) than the current discount rate (3.22 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.00 percent decreasing to 3.75 percent) and higher (8.00 percent decreasing to 5.75 percent) than the current rate.

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| | 1% Decrease (1.63%) | Current Discount Rate (2.63%) | 1% Increase (3.63%) |
|--|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net OPEB liability | \$ 105,539 | \$ 86,226 | \$ 70,873 |

| | 1% Decrease (6.00 % decreasing to 3.75%) | Current Trend Rate (7.00 % decreasing to 4.75%) | 1% Increase (8.00 % decreasing to 5.75%) |
|--|--|--|--|
| Academy's proportionate share of the net OPEB liability | \$ 67,897 | \$ 86,226 | \$ 110,738 |

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2020, actuarial valuation are presented below:

| | | |
|------------------------------|---|-----------------|
| Inflation | 2.50 percent | |
| Projected Salary Increases | 12.50 percent at age 20 to 2.50 percent at age 65 | |
| Payroll Increases | 3.00 percent | |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation | |
| Discount Rate of Return | 7.45 percent | |
| Health Care Cost Trend Rates | | |
| Medical | <u>Initial</u> | <u>Ultimate</u> |
| Pre-Medicare | 5.87 percent | 4.00 percent |
| Medicare | 4.93 percent | 4.00 percent |
| Prescription Drug | | |
| Pre-Medicare | 7.73 percent | 4.00 percent |
| Medicare | 9.62 percent | 4.00 percent |

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

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

The actuarial assumptions used in the June 30, 2020 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

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

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2020.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2020, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2020, calculated using health care cost trend rates that are one percentage point lower and one percentage point higher than the current health care cost trend rates.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net OPEB asset | \$ 101,304 | \$ 116,434 | \$ 129,269 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| Academy's proportionate share of the net OPEB asset | \$ 128,472 | \$ 116,434 | \$ 101,767 |

NOTE 8 - CONTINGENCIES

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

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

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the Academy for fiscal year 2021.

As of the date of this report, additional ODE adjustments for fiscal year 2021 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2021 financial statements is not determinable, at this time, however these would not 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. As discussed above, additional FTE adjustments for fiscal year 2021 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2021 financial statements, related to additional reconciliation necessary with these contracts, is not determinable, however these would not be recorded in the Academy's financial statements on the cash basis of accounting.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 9 – AGREEMENT with NORTH CENTRAL OHIO ESC

The Academy contracted with the North Central Ohio Educational Service Center (NCOESC) as its sponsor to provide oversight services as required by Ohio law. Sponsorship fees are calculated as a three percent of state funds received by the Academy from the State of Ohio. For the fiscal year ended June 30, 2021, the total sponsorship fees paid totaled \$23,060.

During the fiscal year 2021, the Academy also contracted with NCOESC for services related to the management of the Academy’s data through the Education Management Information System (EMIS). The Academy paid \$12,000 related to these services.

NOTE 10 - PURCHASED SERVICES

For the period of July 1, 2020 through June 30, 2021, the Academy made the following purchased services commitments.

| <u>Purchased Services</u> | <u>Amount</u> |
|---------------------------|-------------------|
| Professional Services | \$ 118,305 |
| Property Services | 16,313 |
| Utilities | 2,273 |
| Travel & Meetings | 792 |
| Communications | 1,962 |
| Contractual Trade | 16,194 |
| Total | <u>\$ 155,839</u> |

NOTE 11 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2021, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, GASB Statement No. 90, *Majority Equity Interests and amendment of GASB Statements No. 14 and No. 61*, and certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates*.

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. The implementation of GASB Statement No. 84 did not have an effect on the financial statements of the Academy.

GASB Statement No. 90 improves consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the Academy.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

GASB Statement No. 93 addresses accounting and financial reporting effects that result from the replacement of interbank offered rates (IBORs) with other reference rates in order to preserve the reliability, relevance, consistency, and comparability of reported information. The implementation of certain provisions (all except for paragraphs 13 and 14, which are effective for fiscal years beginning after June 15, 2021), of GASB Statement No. 93 did not have an effect on the financial statements of the Academy.

NOTE 12 - RELATED PARTY TRANSACTIONS

During fiscal year 2021, the Academy received in-kind contributions from the HOPE Learning Academy for classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities.

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

| | | |
|-----------|----|---------------|
| Rent | \$ | 1 |
| Snow-Lawn | | 7,520 |
| Utilities | | 24,147 |
| Total | \$ | <u>31,668</u> |

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

During the fiscal year 2021, 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 2021. The Academy Superintendent, Daniel J. LaValley is a shareholder/partner in this Law firm.

NOTE 13 - COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June of 2021 while the national state of emergency continues. During fiscal year 2021, the Academy received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Additional funding has been made available through the Consolidation Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

NOTE 14 – LONG-TERM OBLIGATIONS

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed on March 27, 2020 in response to COVID-19. The Paycheck Protection Program (PPP) was formed as part of the CARES Act. The PPP allows for certain companies to apply for aid through forgivable loans. The Academy entered into a note payable agreement with a bank under PPP. The unsecured note had a principal balance of \$181,100 as of June 30, 2020. On November 3, 2020, the PPP loan forgiveness request has been approved by Signature Bank and by the U.S. Small Business Administration (SBA). As a result, the PPP loan has been forgiven in full (including all accrued interest).

NOTE 15 – SUBSEQUENT EVENTS

For fiscal year 2022, community school foundation funding received from the state of Ohio will be funded using a direct funding model. For fiscal year 2021 and prior, the amounts related to students who were residents of a particular school district were funded to the school district who, in turn, made the payment to the respective community school. For fiscal year 2021, the Community School reported \$787,423 in revenue related to these programs. This new funding system calculates a unique base cost for each community school. Any change in funding will be subject to a phase in percentage of 16.67 percent for fiscal year 2022 and 33.33 percent for fiscal year 2023.

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

The discussion and analysis of Hope Learning Academy of Toledo (the Academy) financial performance provides an overall review of the Academy’s financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Academy’s financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy’s financial performance.

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

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy for the 2019-20 Academy year are as follows:

- In total, net cash position was \$272,835 at June 30, 2020.
- The Academy had operating revenues of \$999,375 and operating expenses of \$1,483,437 for fiscal year 2020.
- The Academy also received \$572,803 in non-operating revenue during fiscal year 2020.
- Total change in net cash position for fiscal year 2020 was an increase of \$78,741 over the prior fiscal year.
- During the fiscal year, the Academy applied for and received a Payroll Protection Program (PPP) loan from Small Business Administration (SBA) in the amount of \$181,000.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position was prepared on a cash basis reflects how the Academy did financially during fiscal year 2020.

These statements report the Academy’s Net Position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s revenues and expenses if the cash was actually paid or received.

These two statements report the Academy’s net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the Academy as a whole, the cash basis financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the Academy’s student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

USING THIS ANNUAL REPORT (Continued)

Statement of Net Position - The Statement of Net Position answers the question of how the Academy did financially during 2020. These statements report the Academy’s Net Position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Table 1 provides a summary of the Academy’s Net Cash Position for fiscal year 2020 compared to fiscal year 2019.

Table 1
Net Cash Position

| | <u>2020</u> | <u>2019</u> |
|--------------------------|-------------------|-------------------|
| Assets | | |
| Current Assets | \$ 272,835 | \$ 194,094 |
| Net Cash Position | | |
| Unrestricted | 272,835 | 194,094 |
| Total Net Cash Position | <u>\$ 272,835</u> | <u>\$ 194,094</u> |

Over time, net position can serve as a useful indicator of a government’s financial position. Total net cash position of the Academy increased \$78,741 which represents a 41% increase from net cash position reported at June 30, 2019. The unrestricted net position of \$272,835 may be used for the Academy’s ongoing operations.

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

USING THIS ANNUAL REPORT (Continued)

Statement of Revenues, Expenses and Changes in Net Position - Table 2 shows the change in Net Position for fiscal years 2020 and 2019, as well as a listing of revenues and expenses.

Table 2
Change in Net Cash Position

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Operating Revenues | | |
| State Aid | \$ 988,901 | \$ 894,826 |
| Other | 10,474 | 2,781 |
| Total Operating Revenues | <u>999,375</u> | <u>897,607</u> |
| Operating Expenses | | |
| Salaries | 942,277 | 883,653 |
| Fringe Benefits | 215,797 | 197,753 |
| Purchased Services | 226,068 | 151,450 |
| Materials and Supplies | 104,118 | 48,648 |
| Other | 5,177 | 5,314 |
| Total Operating Expenses | <u>1,493,437</u> | <u>1,286,818</u> |
| Operating Loss | (494,062) | (389,211) |
| Non-Operating Revenues: | | |
| State and Federal Grants | 162,342 | 54,831 |
| Other Grants | 14,097 | - |
| PPP Loan Proceeds | 181,100 | - |
| Contributions and Donations | 215,264 | 407,474 |
| Total Non-Operating Revenues | <u>572,803</u> | <u>462,305</u> |
| Change in Net Cash Position | 78,741 | 73,094 |
| Net Cash Position - Beginning of year | 194,094 | 121,000 |
| Net Cash Position - End of year | <u>\$ 272,835</u> | <u>\$ 194,094</u> |

Increases to operating revenues , operating expenses, and state and federal grants is directly tied to changes in student FTE from FY19 to FY20. During 2020, the Academy received proceeds for a one time PPP loan from SBA. Decreases in contributions and donations are reflective of varying activity to address Academy cash needs. See Note 12.

HOPE LEARNING ACADEMY OF TOLEDO – LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 (UNAUDITED)

BUDGETING HIGHLIGHTS

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

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

CAPITAL ASSETS

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

DEBT

During the fiscal year, the School applied for and was granted a one time PPP loan by the Bank and the U.S. Small Business Administration (SBA) for the Paycheck Protection Program loan totaling \$181,100. See Note 14 for further information

CURRENT FINANCIAL ISSUES

The Academy is a community school and is funded through the State of Ohio Foundation Program. The Academy relies on this, as well as, State and Federal funds as its primary source of revenue. In 2020, the State reduced the per pupil funding to \$5,931 due to economic impacts of COVID-19 to the State economy. This was a reduction of \$89 from the previous year. This decrease is anticipated to be in effect for fiscal year 2021. Additionally, community schools in Ohio will be allocated a small amount of facilities funding which is also per pupil based. This amount is projected to be approximately \$200 per pupil.

The full-time equivalent enrollment of the Academy for the year ended June 30, 2020 was 75 compared to a figure of 67 at the end of fiscal year 2019.

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

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, 4234 Monroe Street, Toledo, OH 43606 or by email at dave@massasolutionsllc.com.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

Statement of Net Position – Cash Basis

At June 30, 2020

Assets:

Current Assets:

| | |
|--|------------|
| Equity in Pooled Cash and Cash Equivalents | \$ 272,835 |
|--|------------|

Net Cash Position:

| | |
|-------------------------|-------------------|
| Unrestricted | <u>272,835</u> |
| Total Net Cash Position | <u>\$ 272,835</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, 2020

Operating Revenues:

| | | |
|---------------------------------|----|----------------|
| State Aid | \$ | 988,901 |
| Other | | 10,474 |
| Total Operating Revenues | | <u>999,375</u> |

Operating Expenses:

| | | |
|---------------------------------|--|------------------|
| Salaries | | 942,277 |
| Fringe Benefits | | 215,797 |
| Purchased Services | | 226,068 |
| Materials and Supplies | | 104,118 |
| Other | | 5,177 |
| Total Operating Expenses | | <u>1,493,437</u> |

Operating Loss (494,062)

Non-Operating Revenues:

| | | |
|-------------------------------------|--|----------------|
| State and Federal Grants | | 162,342 |
| Other Grants | | 14,097 |
| PPP Loan Proceeds | | 181,100 |
| Contributions and Donations | | 215,264 |
| Total Non-Operating Revenues | | <u>572,803</u> |

Change in Net Position 78,741

| | | |
|--|----|-----------------------|
| Net Cash Position - Beginning of year | | <u>194,094</u> |
| Net Cash Position - End of year | \$ | <u><u>272,835</u></u> |

See Accompanying Notes to the Basic Financial Statements

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - DESCRIPTION OF THE ENTITY

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

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

The Academy was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2013 and ending on June 30, 2018. The Academy's contract with the Sponsor was renewed through June 30, 2020. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

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

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

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

Cash and Cash Equivalents - Cash received by the Academy is reflected as “Cash and Cash Equivalents” on the Statement of Net Position. The Academy did not have any investments during the period ended June 30, 2020.

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

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Net Cash Position (continued)

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

Intergovernmental Revenues - The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all payment is received by the Academy.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which payment is received by the Academy. The Academy participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the Academy recorded \$988,901 this fiscal year from the Foundation Program and Casino Tax Revenues and \$162,342 from State and Federal Grants.

Operating and Non-Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities of the Academy. For the Academy, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2020.

Non-operating revenues are those revenues that are not generated directly from the primary activities of the Academy. Various federal and state grants, interest earnings, if any, and contributions and donations comprise the non-operating revenues of the Academy. In addition, during 2020 this included loan proceeds from the SBA PPP Loan Program.

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

Long-Term Obligations – The Academy’s cash basis financial statements do not report liabilities for loans and other long term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not a cash transaction, neither another financing source not a capital outlay expenditure are reported at inception. Lease payments are reported when made.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 – COMPLIANCE

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

NOTE 4 - CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit, and Investment Risk Disclosures”.

The Academy maintains its cash balances at one financial institution, PNC Bank, located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2020, the carrying amount of the Academy’s deposits was \$272,835 and the bank balance was \$273,354. A total of \$23,354 was not covered by FDIC and deemed uninsured.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured.

NOTE 5 - RISK MANAGEMENT

Property & 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. Settlement claims have not exceeded this coverage in any of the past three years. There have been no significant reductions in coverage from last year.

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

NOTE 6 - DEFINED BENEFIT PENSIONS PLANS

The net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the cash basis framework.

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability (Asset)

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension/OPEB liability (asset) 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/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB 68/75 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 (assets) 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/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 7 for the required OPEB disclosures.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, 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 before August 1, 2017* | Eligible to Retire on or after August 1, 2017 |
|---------------------------------|---|--|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. SERS did not allocate employer contributions to the Health Care Fund for fiscal year 2020.

The Academy’s contractually required contribution to SERS was \$18,501 for fiscal year 2020.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Plan Description - State Teachers Retirement System (STRS)

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

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. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Effective August 1, 2017 – July 1, 2019, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2019 – July 1, 2021, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 28 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2020, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The Academy’s contractually required contribution to STRS was \$111,934 for fiscal year 2020.

Net Pension Liability

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the employer’s share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------------|--------------------|--------------|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.00233890% | 0.00630251% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | <u>0.00244110%</u> | <u>0.00658853%</u> | |
| Change in Proportionate Share | <u>0.00010220%</u> | <u>0.00028602%</u> | |
| Proportionate Share of the Net Pension Liability | \$ 146,055 | \$ 1,457,014 | \$ 1,603,069 |

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,

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Future benefits for all current plan members were projected through 2035.

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, 2019, are presented below:

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

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

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| 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 | 100.00 % | |

Discount Rate Total pension liability was calculated using the discount rate of 7.50 percent. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on 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 investments was applied to all periods of projected benefits to determine the total pension liability.

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 204,676 | \$ 146,055 | \$ 96,895 |

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, are presented below:

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

The actuarial assumptions used in the July 1, 2019 valuation, were based on the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

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

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Therefore, the long-term expected rate of return on investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2019.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table represents the Academy's proportionate share of the net pension liability as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net pension liability | \$ 2,129,263 | \$ 1,457,014 | \$ 887,920 |

NOTE 7 – DEFINED BENEFIT OPEB PLANS

See Note 6 for a description of the net OPEB liability (asset).

Plan Description - School Employees Retirement System (SERS)

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Academy's surcharge obligation was \$2,813.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability (Asset)

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability (asset) was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------------|--------------------|--------------|
| Proportion of the Net OPEB Liability Prior Measurement Date | 0.00237280% | 0.00630251% | |
| Proportion of the Net OPEB Liability/asset Current Measurement Date | <u>0.00251730%</u> | <u>0.00658853%</u> | |
| Change in Proportionate Share | <u>0.00014450%</u> | <u>0.00028602%</u> | |
| Proportionate Share of the Net OPEB Liability/(asset) | \$ 63,305 | \$ (109,122) | \$ (45,817) |

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019, are presented below:

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

| | |
|---------------------------------------|---|
| Inflation | 3.00 percent |
| Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| Investment Rate of Return | 7.50 percent net of investment expense, including inflation |
| Municipal Bond Index Rate | |
| Measurement Date | 3.13 percent |
| Prior Measurement Date | 3.62 percent |
| Single Equivalent Interest Rate | |
| Measurement Date | 3.22 percent, net of plan investment expense, including price inflation |
| Prior Measurement Date | 3.70 percent, net of plan investment expense, including price inflation |
| Health Care Cost Trend Rate | |
| Pre-Medicare | 7.00 percent - 4.75 percent |
| Medicare | 5.25 percent - 4.75 percent |

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

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

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

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

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
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| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| 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 | 100.00 % | |

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the plan at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and no contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2029. However, since SERS' actuaries indicate the fiduciary net position is projected to be depleted at a future measurement date, the single equivalent interest rate is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e., municipal bond rate).

Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.22 percent) and higher (4.22 percent) than the current discount rate (3.22 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.00 percent decreasing to 3.75 percent) and higher (8.00 percent decreasing to 5.75 percent) than the current rate.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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| | 1% Decrease (2.22%) | Current Discount Rate (3.22%) | 1% Increase (4.22%) |
|--|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net OPEB liability | \$ 50,720 | \$ 63,305 | \$ 80,002 |

| | 1% Decrease (6.25 % decreasing to 3.75%) | Current Trend Rate (7.25 % decreasing to 4.75%) | 1% Increase (8.25 % decreasing to 5.75%) |
|--|--|--|--|
| Academy's proportionate share of the net OPEB liability | \$ 76,840 | \$ 63,305 | \$ 52,543 |

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2019, actuarial valuation are presented below:

| | | |
|------------------------------|---|-----------------|
| Inflation | 2.50 percent | |
| Projected Salary Increases | 12.50 percent at age 20 to 2.50 percent at age 65 | |
| Payroll Increases | 3.00 percent | |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation | |
| Discount Rate of Return | 7.45 percent | |
| Health Care Cost Trend Rates | | |
| Medical | <u>Initial</u> | <u>Ultimate</u> |
| Pre-Medicare | 5.87 percent | 4.00 percent |
| Medicare | 4.93 percent | 4.00 percent |
| Prescription Drug | | |
| Pre-Medicare | 7.73 percent | 4.00 percent |
| Medicare | 9.62 percent | 4.00 percent |

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

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

The actuarial assumptions used in the June 30, 2019 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

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

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

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

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2019.

Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2019, calculated using health care cost trend rates that are one percentage point lower and one percentage point higher than the current health care cost trend rates.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| Academy's proportionate share of the net OPEB asset | \$ 90,741 | \$ 109,122 | \$ 118,587 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| Academy's proportionate share of the net OPEB asset | \$ 117,869 | \$ 109,122 | \$ 93,686 |

NOTE 8 - CONTINGENCIES

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

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

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the Academy for fiscal year 2020.

As of the date of this report, all ODE adjustments have been completed. These amounts are considered immaterial and were not recorded in the Academy's financial statements on the cash basis of accounting.

In addition, the Academy's contracts with their sponsor require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2020 have been completed. A reconciliation between payments previously made and the FTE adjustments have taken place with this contract. These amounts are considered immaterial and were not recorded in the Academy's financial statements on the cash basis of accounting.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 9 – AGREEMENT with NORTH CENTRAL OHIO ESC

The Academy contracted with the North Central Ohio Educational Service Center (NCOESC) as its sponsor to provide oversight services as required by Ohio law. Sponsorship fees are calculated as a three percent of state funds received by the Academy from the State of Ohio. For the fiscal year ended June 30, 2020, the total sponsorship fees paid totaled \$29,020.

During the fiscal year 2020, the Academy also contracted with NCOESC for services related to the management of the Academy’s data through the Education Management Information System (EMIS). The Academy paid \$12,000 related to these services.

NOTE 10 - PURCHASED SERVICES

For the period of July 1, 2019 through June 30, 2020, the Academy made the following purchased services commitments.

| <u>Purchased Services</u> | <u>Amount</u> |
|---------------------------|-------------------|
| Professional Services | \$ 179,818 |
| Property Services | 14,564 |
| Utilities | 1,890 |
| Travel & Meetings | 6,327 |
| Communications | 18,407 |
| Contractual Trade | 3,941 |
| Pupil Transportation | 1,120 |
| Total | <u>\$ 226,068</u> |

NOTE 11 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2020, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 postpones the effective dates of certain provisions in the statements that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The following statements are postponed by one year:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*

Certain provisions in the following statements are postponed by one year:

- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The following statement is postponed by 18 months:

- Statement No. 87, *Leases*

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 - RELATED PARTY TRANSACTIONS

During fiscal year 2020, the Academy received in-kind contributions from the HOPE Learning Academy for classroom space, restrooms, lunch/vending area, conference space, lawn and snow removal service and utilities.

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

| | | |
|-----------|----|---------------|
| Rent | \$ | 1 |
| Snow-Lawn | | 6,223 |
| Utilities | | 24,182 |
| Total | \$ | <u>30,406</u> |

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

During the fiscal year 2020, 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 2020. The Academy Superintendent, Daniel J. LaValley is a shareholder/partner in this Law firm.

NOTE 13 - COVID-19

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

NOTE 14 – LONG-TERM OBLIGATIONS

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed on March 27, 2020 in response to COVID-19. The Paycheck Protection Program (PPP) was formed as part of the CARES Act. The PPP allows for certain companies to apply for aid through forgivable loans. The Academy entered into a note payable agreement with a bank under PPP. The unsecured note had a principal balance of \$181,100 as of June 30, 2020.

HOPE LEARNING ACADEMY OF TOLEDO - LUCAS COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 15 – SUBSEQUENT EVENTS

For fiscal year 2022, community school foundation funding received from the state of Ohio will be funded using a direct funding model. For fiscal year 2021 and prior, the amounts related to students who were residents of a particular school district were funded to the school district who, in turn, made the payment to the respective community school. For fiscal year 2020, the Community School reported \$988,901 in revenue related to these programs. This new funding system calculates a unique base cost for each community school. Any change in funding will be subject to a phase in percentage of 16.67 percent for fiscal year 2022 and 33.33 percent for fiscal year 2023.

Subsequent to year end, the Academy has applied for and received forgiveness in full from SBA and the Bank in regards to the PPP loan issued during fiscal year 2020.

In addition, subsequent to year end, the Academy and North Central Ohio ESC have agreed to an extension with the sponsor contract effective through fiscal year June 30, 2023.

Board of Directors and Management
Hope Learning Academy of Toledo
4234 Monroe Street
Toledo, OH 43606

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ Government Auditing Standards, the cash-basis financial statements of Hope Learning Academy of Toledo, Lucas County, Ohio (the “Academy”) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements and have issued our report thereon dated November 15, 2021, wherein we noted that 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) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy’s internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 financial statements. 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 and responses as item 2021-001.

Hope Learning Academy of Toledo
Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2 of 2

Academy's Responses to the Findings

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

Purpose of this Report

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

Rea & Associates, Inc.

Rea & Associates, Inc.
Gahanna, Ohio
November 15, 2021

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

*Schedule of Findings and Responses
June 30, 2021 and 2020*

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

Finding Number: 2021-001 – Material Non-compliance

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

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

Condition: For the fiscal years ended June 30, 2021 and 2020, the Academy’s financial statements and footnotes were prepared on the cash basis of accounting, which is a comprehensive accounting basis other than GAAP.

Cause/Effect: The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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.

Recommendation: We recommend the Academy prepare its financial statements in accordance with GAAP and ensure its annual financial report is filed with the Auditor of State within the guidelines established by the Ohio Revised Code.

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



234 Monroe Street, Toledo, Ohio 43606

*Summary Schedule of Prior Audit Findings
June 30, 2021 and 2020*

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|--|---|---|
| 2019-001 | Filing of Financial Statements- Noncompliance with Ohio Revised Code Section 17.38(A) and Ohio Administrative Code 117-2-03(B) for reporting on a basis other than generally accepted accounting principles. | Not corrected and reissued as finding 2021-001. | The finding reoccurred as a cost saving measure to the Academy. Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient. |

OHIO AUDITOR OF STATE KEITH FABER



HOPE LEARNING ACADEMY OF TOLEDO

LUCAS COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/23/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov