



**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Hope Academy Lincoln Park Campus
Cuyahoga County
2421 West 11th Street
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited the accompanying financial statements of the Hope Academy Lincoln Park Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hope Academy Lincoln Park Campus, Cuyahoga County, Ohio, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2001 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 31, 2001

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**HOPE ACADEMY LINCOLN PARK CAMPUS
 CUYAHOGA COUNTY
 BALANCE SHEET
 AS OF JUNE 30, 2001**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 43,252
Intergovernmental receivable	<u>13,142</u>
TOTAL CURRENT ASSETS	56,394

NONCURRENT ASSETS

Fixed assets, net of accumulated depreciation	<u>131,375</u>
TOTAL ASSETS	<u>\$ 187,769</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 20,610
Interest payable	1,122
Accrued expenses	75,215
Accrued wages & benefits	82,700
Notes payable	124,000
Intergovernmental payable	30,936
Capital lease payable, current portion	<u>3,771</u>
TOTAL LIABILITIES	338,354

FUND DEFICIT

Accumulated deficit	<u>(150,585)</u>
TOTAL FUND DEFICIT	<u>(150,585)</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 187,769</u>

The notes to the financial statements are an integral part of this statement.

**HOPE ACADEMY LINCOLN PARK CAMPUS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN ACCUMULATED DEFICIT
 FOR THE YEAR ENDED JUNE 30, 2001**

OPERATING REVENUES

Foundation payments	\$ 741,129
Disadvantaged pupil impact aid	189,413
Other	<u>18,892</u>
 TOTAL OPERATING REVENUES	 <u>949,434</u>

OPERATING EXPENSES

Salaries and wages	626,712
Fringe benefits	126,326
Purchased services	544,745
Materials and supplies	65,063
Depreciation	23,259
Other	<u>6,490</u>
 TOTAL OPERATING EXPENSES	 <u>1,392,595</u>
 OPERATING LOSS	 <u>(443,161)</u>

NON-OPERATING REVENUES (EXPENSES)

Grant revenues	335,540
Interest earnings	3,604
Interest expense	<u>(8,517)</u>
 NET NON-OPERATING REVENUES	 <u>330,627</u>
 NET LOSS	 (112,534)
 ACCUMULATED DEFICIT AT BEGINNING OF YEAR	 <u>(38,051)</u>
 ACCUMULATED DEFICIT AT END OF YEAR	 <u><u>\$ (150,585)</u></u>

The notes to the financial statements are an integral part of this statement.

**HOPE ACADEMY LINCOLN PARK CAMPUS
 CUYAHOGA COUNTY
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2001**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$ 928,658
Cash payments to suppliers for goods and services	(565,188)
Cash payments to employees for services and benefits	(705,101)
Other operating revenue	<u>18,892</u>
Net cash used for operating activities	(322,739)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant revenue	329,500
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	(48,672)
Cash received from notes payable	135,000
Cash payments on notes payable	(11,000)
Cash payments on obligation under capital lease	(42,908)
Interest payments	<u>(8,227)</u>
Net cash provided by capital and related financing activities	24,193

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>3,604</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	34,558
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,694</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 43,252</u></u>

(continued)

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating loss	\$ (443,161)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS
TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	23,259
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Changes in assets and liabilities:

Increase in accounts payable	6,781
Increase in accrued expenses and accrued wages & benefits	92,266
(Decrease) in intergovernment payable	<u>(1,884)</u>

Total adjustments	<u>120,422</u>
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Net cash used for operating activities	<u><u>\$ (322,739)</u></u>
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The notes to the financial statements are an integral part of this statement.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School contracts with White Hat Management, LLC, for a variety of services including management consulting, Ohio Department of Education consulting, Educational Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, and assistance in grant applications.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 1999. The School operates under a self-appointing nine-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by 14 non-certified and 12 certified full-time teaching personnel who provide services to 167 students. The Board operates 5 other Hope Academies and 2 Life Skills Centers in the cities of Cleveland and Akron. In Cleveland, they operate the HOPE Academy Broadway Campus, HOPE Academy Cathedral Campus, HOPE Academy Chapelside Campus, and the Life Skills Center of Cleveland and in Akron, they operate the HOPE Academy Brown Street Campus, HOPE Academy University Campus and Life Skills Center of Akron.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

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, including depreciation) 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.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity consists of the accumulated deficit. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BUDGETARY PROCESS

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The School's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Business Manager are responsible for ensuring that purchases are made within these limits. However, any variances from the budget are presented to the Board for subsequent approval.

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in demand deposit accounts and repurchase agreements.

For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. FIXED ASSETS AND DEPRECIATION

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and fixtures, textbooks, and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Leasehold improvements are depreciated over an estimated useful life of 39 or 40 years.

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. INTERGOVERNMENTAL REVENUES (CONTINUED)

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$100,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled \$1,266,082.

G. ACCRUED EXPENSES

Rent (\$14,898), management fees (\$40,167), and advertising & promotion fees (\$20,150) which are due but unpaid as of June 30, 2001, are reported as Accrued Expenses in the accompanying Balance Sheet.

H. INTERGOVERNMENTAL PAYABLE/RECEIVABLE

For fiscal year 2000, the School recognized on its balance sheet an amount classified as "Intergovernmental Payable". This figure represents the amount that is estimated to be refunded to the Ohio Department of Education based on the difference in the actual student full-time equivalent (FTE) enrollment as determined at the end of the 2000 fiscal year, compared to the October 1999 enrollment that the School's monthly funding was based upon. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. As of October 2001, the amount payable for fiscal year 2000 is being deducted from the School's monthly foundation payment.

In fiscal year 2001, the School has recognized on its balance sheet an amount classified as "Intergovernmental Receivable." This figure represents the amount due from the Ohio Department of Education based on the difference in the actual student full-time equivalent (FTE) enrollment as determined at the end of fiscal year 2001, compared to the monthly payments received by the school. A receivable reflects that the School was funded on a lower figure than what the actual FTE enrollment figure was calculated to be at year-end.

I. USE OF ESTIMATES

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

3. ACCUMULATED DEFICIT

The accumulated deficit of \$150,585 is the result of net losses in 2000 and 2001.

The School's operating deficit has been guaranteed by White Hat Management, LLC. The operating deficit is the accumulated deficit less accumulated depreciation. This guarantee is considered an advance under the School's revolving loan note. All amounts advanced under this Deficit Coverage Guaranty Agreement are subject to the provisions of the Revolving Loan and Security Agreement agreed to by the School and White Hat Management LLC. Operating surpluses shall be applied to the reduction of the advances and interest due. Amounts guaranteed are limited to the School's available funds under the loan agreement.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

4. DEPOSITS

Deposits: The carrying value of the School's deposits totaled (\$29,748), and the bank balance totaled \$1,527, all of which was covered by federal depository insurance.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name.

Investments of the School as of June 30, 2001 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase agreement	<u>\$73,000</u>	<u>\$73,000</u>	<u>\$73,000</u>

5. NOTES PAYABLE

The School has a \$125,000 Revolving Loan and Security Agreement (the Loan) with White Hat Management, LLC to fund working capital and other operating needs. There was a \$124,000 balance outstanding at June 30, 2001. Interest expense of \$5,491 was paid at a rate of 10% for the year ended June 30, 2001. Interest payable at June 30, 2001, totaled \$1,122.

6. FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2001, follows:

Leaseholds	\$ 27,789
Furniture & Fixtures	24,506
Textbooks	17,324
Equipment	<u>106,606</u>
Subtotal	176,225
Less: accumulated depreciation	<u>(44,850)</u>
Net fixed assets	<u>\$ 131,375</u>

Equipment includes assets under a capital lease which have an original cost of \$85,520.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

7. LEASES

During fiscal year 2000, the School entered into a capitalized lease with White Hat Management, LLC, for computers and technology. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The equipment has been recorded at the present value of the future minimum lease payments (\$85,520) as of the inception date of the lease. The present value of future lease payments was \$3,772 at June 30, 2001. This amount represents the July 2001 payment of \$3,804 less interest.

The School also leases its facilities from White Hat Realty, LLC, under a five-year triple net sub-lease agreement which ends on June 30, 2004. The sub-lease requires minimum annual rent of \$48,000 plus 6% of the School's annual gross revenues in excess of \$800,000. The sub-lease also contains a renewal option for an additional five-year term. This lease was revised effective February 2001 to a flat rate of \$5,192 per month.

Rent expense was \$59,254 for the year ended June 30, 2001, of which \$14,898 was payable to White Hat Realty, LLC at June 30, 2001.

8. PURCHASED SERVICES

Purchased Services include the following:

Occupancy costs	\$122,917
Professional services – Management and start-up fees	120,880
Professional services – Grant program cost	63,077
Professional services – Fiscal Cost	12,982
Professional services- Legal Cost	30,564
Professional services- Technical/Professional	87,801
Food service	44,841
Insurance	17,363
Advertising and promotion	32,101
Other, net	<u>12,219</u>
Total	<u>\$ 544,745</u>

9. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School contracted with Westfield Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$1,200,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. General Star National Insurance Companies provides umbrella liability coverage of \$25,000,000 per occurrence, as well as, in the aggregate and excess umbrella liability coverage of \$25,000,000 per occurrence, as well as, in the aggregate.

Director and officer coverage is provided by National Union Fire Insurance Company with a \$1,000,000 aggregate limit and no deductible.

Workers Compensation – The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the total monthly gross payroll by a factor determined by the Bureau of Worker's Compensation.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

10. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits - The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 59% and 75% of the monthly premium for family and single employees, respectively. The employee is responsible for the remaining percentage. For fiscal year 2001, the School's and the employees' monthly premiums were \$232.55 and \$161.00 for family coverage and \$107.33 and \$35.78 for single coverage per employee, respectively.

The School has also contracted with private carriers to provide dental and vision insurance. As with medical benefit premiums, the School pays 75% and 59% of the monthly premium for single and family employees, respectively. The employee is responsible for the remaining percentage. For the fiscal year 2001, the School's and employees' monthly premiums for vision were \$8.95 and \$6.20 for family coverage and \$4.15 and \$1.39 for single coverage per employee, respectively. The School's and employees' monthly premiums for dental were \$33.60 and \$24.40 for family coverage and \$13.81 and \$4.60 for single coverage per employee, respectively.

Insurance Benefits – The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$25,000 is provided for all certified and non-certified employees. The School pays premiums for this coverage at a rate of \$4.88 per employee per month.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2001, 4.2 percent was the portion to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001 and 2000 were \$11,035 and \$8,971, respectively; 90 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. \$1,066 representing the unpaid contribution for fiscal year 2001 is recorded as a liability within accrued wages and benefits.

B. State Teachers Retirement System

The School also contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

11. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, 6 percent was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001 and 2000 were \$15,678 and \$12,223, respectively; 92 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. \$1,224 representing the unpaid contribution for fiscal year 2001 is recorded as a liability with accrued wages and benefits.

12. POST EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician's fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and contribution rates are established by the Systems based on authority granted by State statute. Both Systems are on pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School during the 2001 fiscal year, this amount equaled \$16,744 of which \$1,312 was payable at June 30, 2001.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For fiscal year 2001, employer contributions to fund health care benefits were 70 percent of actual employer contributions. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School during the 2001 fiscal year, the amount to fund health care benefits, including surcharge, equaled \$25,748 of which \$2,144 was payable at June 30, 2001.

13. AGREEMENTS WITH WHITE HAT MANAGEMENT, LLC

On July 27, 1999, the School entered into a five-year Management Consulting, Technology Support, and License Agreement (Consulting Agreement) and a Deficit Coverage Guaranty Agreement (Deficit Coverage Agreement) with White Hat Management, LLC (WHM), which is an education consulting and management company.

The Consulting Agreement's term coincides with the School's charter agreement and allows the School to utilize WHM's proprietary systems, manuals, forms, names and to receive advice on funding and reimbursement; special education programs; consulting and liaison services with the Ohio Department of Education and other governmental agencies; EMIS monitoring and consulting;

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

13. AGREEMENTS WITH WHITE HAT MANAGEMENT, LLC (CONTINUED)

grant writing assistance; technology procurement, implementation assistance, and other services and consultation as requested. WHM is compensated at a rate of 10% of qualified gross revenues plus an incentive fee equal to 25% of excess revenues over expenditures as defined in the agreement. For the year ended June 30, 2001, \$120,880 was expensed by the School under the Consulting Agreement and \$40,167 was payable to WHM at June 30, 2001. Amounts payable, if any, under the incentive fee arrangement have been waived as of June 30, 2001.

The School has also entered into a Deficit Coverage Guaranty Agreement as detailed in Note 3 and a Revolving Loan and Security Agreement as detailed in Note 5 with WHM.

The previous Consulting Agreement required the School to fund an advertising and recruitment program fee at a rate of 3% of qualified gross revenues. Revised in January 2001, the agreement terminates the 3% advertising stipend effective July 2000. The School's advertising expense exceeded the reserve and the School has a payable to WHM of \$20,149 at June 30, 2001.

14. CONTINGENCIES

A. GRANTS

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

B. PENDING LITIGATION

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State Law. The effect of this suit, if any, on the school is not presently determinable.

15. STATE SCHOOL FUNDING DECISION

On September 16, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be constitutional, including:

1. A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
2. Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order. In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 31, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed on September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. On November 2, 2001, the court granted this motion for reconsideration. The court may reexamine and redetermine any issue upon such reconsideration.

**HOPE ACADEMY LINCOLN PARK CAMPUS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

15. STATE SCHOOL FUNDING DECISION (CONTINUED)

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

16. TAX EXEMPT STATUS

In August 2001, the school received status as a tax-exempt organization under Internal Revenue Code 501(c) (3). Management is not aware of any causes of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Hope Academy Lincoln Park Campus
Cuyahoga County
2421 West 11th Street
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited the financial statements of the Hope Academy Lincoln Park Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated December 31, 2001.

Hope Academy Lincoln Park Campus
Cuyahoga County
Report on Compliance and on Internal Control Required
by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the Audit Committee, the Board of Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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HOPE ACADEMY LINCOLN PARK CAMPUS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2002**