



**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Hope Academy Brown Street Campus
Summit County
1035 Clay Street
Akron, Ohio 44301

To the Board of Trustees:

We have audited the Balance Sheet of the Hope Academy Brown Street Campus, Summit County, (the School) as of June 30, 2002, and the related Statements of Revenues, Expenses, and Changes in Accumulated Deficit, and of Cash Flows for the year then ended. 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 Brown Street Campus, Summit County, as of June 30, 2002, 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 June 30, 2003, 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.

We performed our audit to form an opinion on the financial statements of the School, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 30, 2003

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY
BALANCE SHEET
AS OF JUNE 30, 2002**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 26,309
Intergovernmental receivable	26,459
Prepaid insurance	6,702
Accounts receivable	<u>241</u>
TOTAL CURRENT ASSETS	59,711

NONCURRENT ASSETS

Fixed assets, net of accumulated depreciation	<u>393,801</u>
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TOTAL ASSETS	<u>\$ 453,512</u>
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LIABILITIES AND FUND (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 74,808
Accrued expenses	143,784
Intergovernmental payable	15,663
Note payable	<u>311,000</u>
TOTAL CURRENT LIABILITIES	545,255

FUND (DEFICIT)

Accumulated Deficit	<u>(91,743)</u>
TOTAL FUND (DEFICIT)	<u>(91,743)</u>
TOTAL LIABILITIES AND FUND (DEFICIT)	<u>\$ 453,512</u>

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

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT
YEAR ENDED JUNE 30, 2002**

OPERATING REVENUES

Foundation payments	\$ 1,326,906
Disadvantaged pupil impact aid	192,245
Other	<u>28,816</u>
 TOTAL OPERATING REVENUES	 1,547,967

OPERATING EXPENSES

Salaries and wages	982,470
Fringe benefits	243,894
Purchased services	691,138
Materials and supplies	121,389
Depreciation	80,772
Other	<u>3,042</u>
 TOTAL OPERATING EXPENSES	 <u>2,122,705</u>
 OPERATING LOSS	 (574,738)

NON-OPERATING REVENUES (EXPENSES)

Grant revenues	513,720
Interest earnings	1,946
Interest expense	<u>(26,178)</u>
 NET NON-OPERATING REVENUES	 <u>489,488</u>
 NET LOSS	 (85,250)
 ACCUMULATED DEFICIT AT BEGINNING OF YEAR	 <u>(6,493)</u>
 ACCUMULATED DEFICIT AT END OF YEAR	 <u>\$ (91,743)</u>

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

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$ 1,478,148
Cash payments to suppliers for goods and services	(810,234)
Cash payments to employees for services and benefits	(1,147,538)
Other operating revenue	<u>28,816</u>
Net cash used for operating activities	(450,808)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from grant programs	498,700
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	(48,755)
Cash received from notes payable	151,000
Cash payments on notes payable	(125,000)
Cash payments on obligation under capital lease	(6,401)
Interest payments	<u>(25,961)</u>
Net cash used for capital and related financing activities	(55,117)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>1,705</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS (5,520)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 31,829

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 26,309

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002
(Continued)**

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

Operating loss	\$ (574,738)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS
TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	80,772
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(5,849)
Decrease in prepaid insurance	17,255
Decrease in accounts payable	(24,420)
Increase in accrued expenses	63,582
Decrease in intergovernmental payable	<u>(7,411)</u>
Total adjustments	<u>123,930</u>
Net cash used for operating activities	<u>\$ (450,808)</u>

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

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hope Academy Brown Street 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, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, and assistance in grant applications. See Note 14.

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, 1998. 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 13 certified full-time teaching personnel who provide services to 265 students. The Board operates 4 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 Chapelside Campus, HOPE Academy Lincoln Park Campus, and the Life Skills Center of Cleveland, and in Akron, they operate the 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 (i.e., net total liabilities) 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 BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGETARY PROCESS

Unlike traditional 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, of which a portion is swept, daily, into an overnight investment account.

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 3 to 10 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. Revenue received from these programs is 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.

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

F. INTERGOVERNMENTAL REVENUES (Continued)

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.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$234,000 during the year ended June 30, 2002 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 2002 school year totaled \$2,032,871.

G. ACCRUED EXPENSES

Payroll and unpaid pension obligations (\$143,784) which are due but unpaid as of June 30, 2002, are reported as Accrued Expenses in the accompanying balance sheet.

H. INTERGOVERNMENTAL RECEIVABLE/PAYABLE

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 2002, compared to the monthly payments received by the school. A receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2002, the FTE receivable included in the intergovernmental receivable was \$5,849.

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 School had an accumulated deficit of \$91,743 at June 30, 2002.

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

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS

Deposits: At year-end, the carrying amount of the School's deposits was (\$33,691), and the bank balance was \$5,724. All of the bank balance 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 custodial credit 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, 2002 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Sweep account	<u>\$60,000</u>	<u>\$60,000</u>	<u>\$60,000</u>

5. INTERGOVERNMENTAL RECEIVABLES

Significant receivables of the School at June 30, 2002 consisted of federal program grants of \$20,610 and a FTE receivable of \$5,849.

6. NOTE PAYABLE

The School has a \$450,000, Revolving Loan and Security Agreement (the Loan) with White Hat Management, LLC to fund working capital and other operating needs. The Loan was due on demand or in the absence of earlier demand, on June 30, 2002. The Loan was renewed for an additional one-year period. The balance outstanding was \$311,000 at June 30, 2002. Interest expense of \$26,178 was paid at a rate of 10% for the year ended June 30, 2002, and \$2,592 was payable to White Hat Management at June 30, 2002 and is included in the accounts payable.

7. FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2002, follows:

Leaseholds	\$245,154
Furniture and fixtures	49,303
Textbooks	117,781
Equipment	<u>259,722</u>
Subtotal	671,960
Less: accumulated depreciation	<u>(278,159)</u>
Net fixed assets	<u>\$ 393,801</u>

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. LEASES

The School leases its facilities from White Hat Realty, LLC, under a five-year triple net sub-lease agreement which ends on June 30, 2003. The sub-lease was amended on February 1, 2001, to reflect a fixed monthly payment of \$8,100 per month. The sub-lease also contains a renewal option for an additional five-year term. Rent expense under this lease was \$97,200 for the year ended June 30, 2002, of which \$8,100 was payable to White Hat Realty, LLC, at June 30, 2002 and is included in the accounts payable.

9. PURCHASED SERVICES

Purchased Services include the following:

Occupancy costs	\$171,978
Professional services – Management fee	193,956
Professional services – Grant and title program expenses	96,314
Professional services – Fiscal	24,932
Professional services – Legal	21,392
Food service	75,347
Insurance	17,717
Other, net	<u>89,502</u>
Total	<u>\$ 691,138</u>

10. 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 2002, the School contracted with Westfield Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$150,000 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 \$10,000,000 per occurrence, as well as in the aggregate, and excess umbrella liability coverage of \$15,000,000 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 a \$5,000 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.

11. 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 2002, the School's and the employees' monthly premiums were \$272.38 and \$188.58 for family coverage and \$125.71 and \$41.91 for single coverage per employee, respectively.

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. OTHER EMPLOYEE BENEFITS (Continued)

The School has also contracted with private carriers to provide dental and vision insurance. As with medical benefit premiums, 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 the fiscal year 2002, the School's and employees' premiums for vision were \$8.95 and \$6.20 for family coverage and \$4.15 and \$1.39 for single coverage per employee per month, 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 also 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.

12. 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, 300 East Broad Street, Columbus, Ohio 43215-3746.

For fiscal year ended June 30, 2002, plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2001, 4.20 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$23,578, \$45,861, and \$29,493, respectively.

B. State Teachers Retirement System

The School 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 stand alone 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 43215-3371.

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2002, 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. 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 contribution for pension obligations to STRS for the fiscal year ended June 30, 2002, 2001, 2000, and 1999 were \$53,354, \$72,345, and \$47,623, respectively; 92 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001, and 2000.

13. 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 retired classified 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 the obligations to contribute are established by the Systems based on authority granted by State statute. Both Systems are on pay-as-you-go basis.

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost 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. For the year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$25,273 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. 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, pro rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million.

At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled \$44,543 during the 2002 fiscal year.

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

14. AGREEMENTS WITH WHITE HAT MANAGEMENT, LLC

On August 10, 1998, 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; grant writing assistance; technology procurement, implementation assistance, and other services and consultation as requested. WHM is compensated at a rate of 10 percent of qualified gross revenues plus an incentive fee equal to 25 percent of excess revenues over expenditures as defined in the agreement. For the year ended June 30, 2002, \$193,956 was expensed by the School under the Consulting Agreement and \$43,205 was payable to WHM at June 30, 2002 and is included in the accounts payable.

The School has also entered into a Deficit Guaranty Agreement as detailed in Note 3 and a Revolving Loan Security Agreement as detailed in Note 6 with WHM.

15. 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. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues.

16. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School is unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

17. FEDERAL TAX STATUS

In August 2001, the School received status as an exempt organization under Internal Revenue Code Section 501(c)(3).

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

18. SUBSEQUENT EVENTS

In September 2002, the Board approved a modification to its contract with White Hat Management LLC effective July 1, 2002. The revised agreement calls for the Board to pay WHLS of Ohio LLC, a White Hat Management affiliate, 97 percent of its revenue. WHLS of Ohio LLC will be responsible for all costs associated with the day to day operations of the school.

In September 2002, the revolving note was canceled by White Hat Management, LLC effective September 27, 2002.

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**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	134221-LLP	10.555	\$55,751	\$55,751
School Breakfast Program	134221-05PU-2001 134221-05PU-2002	10.553	3,783 18,649	3,783 18,649
Total School Breakfast Program			<u>22,432</u>	<u>22,432</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>78,183</u>	<u>78,183</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	134221-6BSF-2002P 134221-6BSX-2001P	84.027	9,734 5,590	9,734 5,590
Total Special Education Cluster			<u>15,324</u>	<u>15,324</u>
Eisenhower Professional Development State Grants	134221-MSS1-2002	84.281	2,678	1,810
Class Size Reduction	134221-CRS1-2000 134221-CRS1-2001 134221-CRS1-2002	84.340	19,756	6,436 11,926 19,714
			<u>19,756</u>	<u>38,076</u>
Title I Grants to Local Educational Agencies (ESEA Title I)	134221-C1S1-2000 134221-C1S1-2001 134221-C1S1-2002	84.010	116,897	1,877 28,435 115,395
Total Title I Grants to Local Educational Agencies			<u>116,897</u>	<u>145,707</u>
Innovative Educational Program Strategies	134221-C2S1-2002 134221-C2S1-2002	84.298	90 610	1,657
Total Innovative Educational Program Strategies			<u>700</u>	<u>1,657</u>
Safe and Drug-Free Schools Communities State Grants	134221-DRS1-2002	84.186	2,569	2,294
Charter Schools	134221-CHS1-2001	84.282	234,000	234,000
Total U.S. Department of Education			<u>391,924</u>	<u>438,868</u>
Totals			<u>\$470,107</u>	<u>\$517,051</u>

The accompanying notes to this schedule are an integral part of this schedule.

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the School's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – SUBRECIPIENTS

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – CHARTER SCHOOL PROGRAM

The Charter School Program expenditures include \$34,000 from 2001 Grant.



**Auditor of State
Betty Montgomery**

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

Hope Academy Brown Street Campus
Summit County
1035 Clay Street
Akron, Ohio 44301

To the Board of Trustees:

We have audited the financial statements of Hope Academy Brown Street Campus, Summit County, (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated June 30, 2003. 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*.

However, we noted an immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated June 30, 2003.

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 operations that we consider to be material weaknesses.

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www.auditor.state.oh.us

However, we noted 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 June 30, 2003.

This report is intended for the information and use of the audit committee, management and the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 30, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Hope Academy Brown Street Campus
Summit County
1035 Clay Street
Akron, Ohio 44301

To the Board of Trustees:

Compliance

We have audited the compliance of the Hope Academy Brown Street Campus, Summit County, (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to management of the School in a separate letter dated June 30, 2003.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 30, 2003

**HOPE ACADEMY BROWN STREET CAMPUS
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.282 Charter Schools and CFDA #84.340 Class Size Reduction
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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HOPE ACADEMY BROWN STREET CAMPUS

SUMMIT 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
SEPTEMBER 9, 2003**