



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



**Auditor of State  
Betty Montgomery**



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Hope Academy Chapelside Campus  
Cuyahoga County  
3845 East 131<sup>st</sup> Street  
Cleveland, Ohio 44120

We have audited the accompanying financial statements of the Hope Academy Chapelside Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2002, 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 Chapelside Campus, Cuyahoga County, Ohio as of June 30, 2002, and the results of its operations and the 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.

The accompanying federal awards receipts and expenditure schedule 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. 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".

**Betty Montgomery**  
Auditor of State

June 30, 2003

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**HOPE ACADEMY CHAPELSIDE CAMPUS  
 CUYAHOGA COUNTY  
 BALANCE SHEET  
 AS OF JUNE 30, 2002**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	68,335
Intergovernmental receivable		55,058
Prepaid Insurance		4,894
Accounts receivable		227
		227

TOTAL CURRENT ASSETS		128,514
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**NONCURRENT ASSETS**

Fixed assets, net of accumulated depreciation		740,538
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TOTAL ASSETS		\$ 869,052
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**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

Accounts payable	\$	154,033
Accrued expenses		219,150
Intergovernmental payable		25,780
		25,780

TOTAL LIABILITIES		398,963
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**FUND EQUITY**

Retained Earnings		470,089
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TOTAL FUND EQUITY		470,089
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TOTAL LIABILITIES AND FUND EQUITY		\$ 869,052
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The notes to the financial statements are an integral part of this statement.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
 CUYAHOGA COUNTY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
 FOR THE YEAR ENDED JUNE 30, 2002**

**OPERATING REVENUES**

Foundation payments	\$ 2,095,741
Disadvantaged pupil impact aid	467,538
Other	<u>41,677</u>
 TOTAL OPERATING REVENUES	 2,604,956

**OPERATING EXPENSES**

Salaries and wages	1,459,266
Fringe benefits	317,827
Purchased services	1,060,719
Materials and supplies	352,755
Depreciation	111,708
Other	<u>8,035</u>
 TOTAL OPERATING EXPENSES	 <u>3,310,310</u>
 OPERATING LOSS	 (705,354)

**NON-OPERATING REVENUES**

Grant revenues	708,257
Interest earnings	<u>5,899</u>
 NET NON-OPERATING REVENUES	 <u>714,156</u>
 NET INCOME	 8,802
 RETAINED EARNINGS AT BEGINNING OF YEAR	 <u>461,287</u>
 RETAINED EARNINGS AT END OF YEAR	 <u><u>\$ 470,089</u></u>

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



**HOPE ACADEMY CHAPELSIDE CAMPUS  
 CUYAHOGA COUNTY  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2002**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from State of Ohio	\$ 2,567,052
Cash payments to suppliers for goods and services	(1,340,990)
Cash payments to employees for services and benefits	(1,697,295)
Other operating revenue	<u>41,677</u>
Net cash used for operating activities	(429,556)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash received from grant programs	780,513
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Cash payments for capital acquisitions	(425,077)
Cash payments on obligation under capital lease	<u>(7,907)</u>
Net cash used for capital and related financing activities	(432,984)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	<u>5,672</u>
Net cash provided by investing activities	<u>5,672</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(76,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>144,690</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 68,335</u></u>

(continued)

**HOPE ACADEMY CHAPELSIDE CAMPUS**  
**CUYAHOGA COUNTY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2002**  
 (Continued)

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

Operating loss	\$	(705,354)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation		111,708
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Changes in assets and liabilities:

Decrease in intergovernmental receivable		3,244
Decrease in accounts receivable		56,300
Increase in prepaid insurance		(4,894)
Increase in accounts payable		29,114
Increase in accrued expenses		54,546
Increase in intergovernmental payable		25,780
		25,780

Total adjustments		275,798
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Net cash used for operating activities	\$	(429,556)
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The notes to the financial statements are an integral part of this statement.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Hope Academy Chapelside 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 services. 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, 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 26 non-certified and 30 certified full-time teaching personnel who provide services to 445 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 Lincoln Park 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 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 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 retained earnings. 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 CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**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 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. Revenue 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.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

**G. ACCRUED EXPENSES**

Wages, salaries and benefits (\$216,574) which are due but unpaid as of June 30, 2002, are reported as Accrued Expenses in the accompanying Balance Sheet.

**H. INTERGOVERNMENTAL PAYABLE**

In fiscal year 2002, the School has recognized on its balance sheet an amount classified as "Intergovernmental Payable." This figure represents the amount due 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 fiscal year 2002, compared to the monthly payments received by the school. A payable reflects that the School was funded on a higher 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. DEPOSITS**

Deposits: The carrying value of the School's deposits totaled (\$34,665), and the bank balance was \$8,037, 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.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**3. DEPOSITS (Continued)**

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>
Repurchase agreement	<u>\$103,000</u>	<u>\$103,000</u>	<u>\$103,000</u>

**4. INTERGOVERNMENTAL RECEIVABLE**

Significant receivables of the School at June 30, 2002 consisted of federal Title program grants of \$55,058.

**5. FIXED ASSETS AND DEPRECIATION**

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

Leaseholds	\$ 485,542
Furniture and fixtures	54,520
Textbooks	142,121
Equipment	<u>410,063</u>
Subtotal	1,092,246
Less: accumulated depreciation	<u>(351,708)</u>
Net fixed assets	<u>\$ 740,538</u>

**6. LEASES**

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, 2003. 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. Rent expense under this lease was \$190,101 for the year ended June 30, 2002, of which \$33,224 was payable to White Hat Realty, LLC at June 30, 2002.

**7. PURCHASED SERVICES**

Purchased Services include the following:

Occupancy costs	\$347,686
Professional services – Management fee	316,835
Professional services – Grant program cost	91,783
Professional services – Legal	26,282
Professional services – Technical/Professional	105,408
Food service	98,373
Insurance	24,568
Other, net	<u>49,784</u>
Total	<u>\$ 1,060,719</u>

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**8. 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 Ohio Farmers Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$1,625,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. American Alliance Insurance Companies provides umbrella liability coverage of \$15,000,000 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 n\$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.

**9. 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.

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

**10. 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, 300East Broad Street, Columbus, Ohio 43215-3746.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

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. 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 contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$30,883, \$65,152, and \$20,335, respectively, of which \$3,148 was payable as of June 30, 2002.

**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.

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 contributions for pension obligations to STRS for the fiscal year ended June 30, 2002, 2001 and 2000 were \$79,474, \$80,143 and \$29,264 respectively of which \$11,594 was payable as of June 30, 2002.

**11. 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 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 contribution rates 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 \$37,645 during the 2002 fiscal year of which \$5,493 was payable as of June 30, 2002.



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**11. POST EMPLOYMENT BENEFITS (Continued)**

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 benefits recipients.

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 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, prorated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400 for the School during the 2002 fiscal year, the amount to fund health care benefits, including surcharge, equaled \$48,305 of which \$5,016 was payable at June 30, 2002.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended 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 health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health benefits.

**12. AGREEMENTS WITH WHITE HAT MANAGEMENT, LLC**

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% 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, 2002 \$316,835 was expensed by the School under the Consulting Agreement and \$55,375 was payable to WHM at June 30, 2002.

The School also has a \$500,000 Revolving Loan and Security Agreement (the Loan) with White Hat Management, LLC to fund working capital and other operating needs.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(CONTINUED)**

**12. AGREEMENTS WITH WHITE HAT MANAGEMENT, LLC (Continued)**

In addition, the School entered into a Deficit Coverage Guaranty Agreement with WHM. 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 guarantees and interest due. Amounts guaranteed are limited to the School's available funds under the loan agreement.

**13. 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.

**14. 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.

**15. FEDERAL TAX EXEMPTION STATUS**

In August 2001, the school received status as a tax-exempt organization under Internal Revenue Code section 501(C)(3).

**16. 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% of its revenue. WHLS of Ohio LLC will be responsible for all costs associated with the day to day operations of the school.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

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

<b>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</b>	Federal CFDA Number	Pass-Through Entity Number	Receipts	Expenditures
<b>U.S. Department of Agriculture</b>				
Passed-Through the State Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	133819-05PU-2002 133819-05PU-2001	\$ 15,274 6,951 <u>22,225</u>	\$ 15,274 6,951 <u>22,225</u>
School Lunch Program	10.555	133819-LLP1-2002 133819-LLP1-2001 133819-LLP4-2002 133819-LLP4-2001	891 5,808 33,919 7,397 <u>48,015</u>	891 5,808 33,919 7,397 <u>48,015</u>
Total Child Nutrition Cluster			<u>70,240</u>	<u>70,240</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed-Through the State Department of Education				
Special Education Cluster				
Special Education Grants to States (IDEA) Part B) Title VI B	84.027	133819-6BSF-2002-P 133819-6BSX-2001-P	4,879 3,354 <u>8,233</u>	4,896 3,337 <u>8,233</u>
Total Special Education Cluster			<u>8,233</u>	<u>8,233</u>
Grants to Local Education Agencies - ESEA Title I	84.010	133819-C1S1-2002 133819-C1S1-2001 133819-C1S1-2000	86,377 (9,749) - <u>76,628</u>	84,400 800 959 <u>86,159</u>
Title II	84.281	133819-MSS1-2002 133819-MSS1-2001	2,086 - <u>2,086</u>	2,274 220 <u>2,494</u>
Drug Free Grant	84.186	133819-DRS1-2002 133819-DRS1-2001	338 4,136 <u>4,474</u>	154 - <u>154</u>
Innovative Education Program Strategies - Title VI	84.298	133819-C2S1-2002 133819-C2S1-2001	605 1,539 <u>2,144</u>	232 - <u>232</u>
Reducing Class Size Grant - Title VI -R	84.340	133819-CRS1-2002 133819-CRS1-2001 133819-CRS1-2000	16,467 2,410 - <u>18,877</u>	16,807 14,013 3,065 <u>33,885</u>
Public Charter Schools Subsidy	84.282	133819-CHS1-2002	150,000 <u>150,000</u>	150,000 <u>150,000</u>
Total Department of Education Fund:			<u>262,442</u>	<u>281,157</u>
Total Expenditures of Federal Award			<u>\$ 332,682</u>	<u>\$ 351,397</u>

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

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

CFDA – Catalog of Federal Domestic Assistance

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the Community School's federal awards programs. The schedule has been prepared on the cash basis of accounting.



**Auditor of State  
Betty Montgomery**

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

Hope Academy Chapelside Campus  
Cuyahoga County  
3845 East 131<sup>st</sup> Street  
Cleveland, Ohio 44120

We have audited the financial statements of Hope Academy Chapelside Campus, Cuyahoga County, Ohio, (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 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 certain immaterial instances 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 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2002-001.

**Internal Control Over Financial Reporting (Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also 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 June 30, 2003.

This report is intended for the information and use of the audit committee, management, 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.



**Betty Montgomery**  
Auditor of State

June 30, 2003



## Auditor of State Betty Montgomery

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

Hope Academy Chapelside Campus  
Cuyahoga County  
3845 East 131<sup>st</sup> Street  
Cleveland, Ohio 44120

#### Compliance

We have audited the compliance of the Hope Academy Chapelside Campus, Cuyahoga County, Ohio, (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 each of its major federal programs 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 each of its major federal programs 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 Hope Academy Chapelside Campus, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

#### 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.

**Internal Control Over Compliance (Continued)**

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings as items 2002-001.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of Entity in a separate letter dated June 30, 2003.

This report is intended for the information and use of the audit committee, management, 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.



**Betty Montgomery**  
Auditor of State

June 30, 2003



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505**

**FISCAL YEAR END JUNE 30, 2002**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<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)?	Yes
<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?	Yes
<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):	Public Charter School Subsidy 84.282 and Title I 84.010
<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

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505**

**FISCAL YEAR END JUNE 30, 2002  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	2002-001
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The control system in place, at the School, provides for an authorization prior to a purchase being initiated. Purchase requests are required to be prepared and be approved by the School principal, purchases in excess of \$2,500 are required to be reviewed and approved by the management company treasurer, and the business manager is required to review all packaging slips and compare them to the invoices received for items purchased.

Based on the testing procedures applied during the audit we noted the following:

- In 45 out of 60 vouchers tested, no evidence could be located that the purchases were approved by the School principal, purchase requisitions were not available and properly approved purchase requests were not on file for any of the items tested,
- Management company treasurer did not sign purchase orders in 4 out of 10 instances tested, and,
- No evidence could be located that the business manager verified the accuracy of the packaging slips to the invoice received in 3 out of 19 items tested.

We recommend that the School review the internal procedures and institute the necessary guidelines to help ensure the compliance with and effectiveness of the control system in place. The School should also implement a policy of system review, on a regular basis, to determine the effectiveness of the procedures in place.

Subsequent to June 30, 2002, the School modified its contract with White Hat Management, LLC. to manage 97% of its revenues, 100% of its federal funds, and transferred the responsibility for all costs associated with the daily operations of the School to the Management Company.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None



**Auditor of State  
Betty Montgomery**

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**HOPE ACADEMY CHAPELSIDE 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  
SEPTEMBER 23, 2003**