



**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**HOPE ACADEMY CATHEDRAL CAMPUS
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REPORT OF INDEPENDENT ACCOUNTANTS

Members of the Board of Trustees
Hope Academy - Cathedral Campus Community School
Cuyahoga County
10615 Lamontier
Cleveland, Ohio 44104

We have audited the accompanying statements of the Hope Academy - Cathedral Campus Community School, Cuyahoga County, Ohio, (the Community School) as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the Community 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 generally accepted auditing standards 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 Hope Academy - Cathedral Campus Community School as of June 30, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2000 on our consideration of the Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

July 21, 2000

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**HOPE ACADEMY CATHEDRAL CAMPUS
BALANCE SHEET
AS OF JUNE 30, 1999**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 5,976
Receivables:	
Grants	168,771
Other	264
Prepaid expenses	<u>19,052</u>
 TOTAL CURRENT ASSETS	 194,063

NONCURRENT ASSETS

Fixed assets, net of accumulated depreciation	<u>480,242</u>
 TOTAL ASSETS	 <u>\$674,305</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 4,222
Accrued expenses	51,625
Intergovernmental payable	42,384
Notes payable	57,714
Capital lease payable, current portion	<u>86,914</u>
 TOTAL CURRENT LIABILITIES	 242,859

LONG-TERM LIABILITIES

Capital lease payable, net of current portion	<u>104,457</u>
 TOTAL LIABILITIES	 347,316

FUND EQUITY

Retained earnings	<u>326,989</u>
 TOTAL FUND EQUITY	 <u>326,989</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$674,305</u>

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

HOPE ACADEMY CATHEDRAL CAMPUS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEAR ENDED JUNE 30, 1999

OPERATING REVENUES

Foundation payments	\$1,160,744
Federal grant revenue	166,571
Disadvantaged pupil impact aid	314,741
Other	<u>94,691</u>
TOTAL OPERATING REVENUES	1,736,747

OPERATING EXPENSES

Salaries and wages	592,360
Fringe benefits	121,557
Purchased services	507,719
Materials and supplies	70,108
Depreciation	77,551
Other	<u>9,464</u>
TOTAL OPERATING EXPENSES	<u>1,378,759</u>
OPERATING INCOME	357,988

NON-OPERATING REVENUES (EXPENSES)

Interest earnings	1,019
Interest expense	<u>(32,018)</u>
NET NON-OPERATING EXPENSES	<u>(30,999)</u>
NET INCOME	326,989
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>-</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 326,989</u>

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

**HOPE ACADEMY CATHEDRAL CAMPUS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 1999**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State of Ohio	\$1,198,440
Cash payments to suppliers for goods and services	(564,838)
Cash payments to employees for services and benefits	(695,493)
Other operating revenue	<u>406,970</u>
Net cash provided by operating activities	345,079

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	(293,403)
Cash received from notes payable	427,714
Cash payments on notes payable	(370,000)
Principal payments on obligation under capital lease	(72,415)
Interest payments	<u>(32,018)</u>
Net cash used for capital and related financing activities	(340,122)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>1,019</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,976
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,976</u>

Non-cash capital and related financing activity

During the year, \$263,786 of fixed assets and capitalized lease obligations were recorded under a capital lease.

(continued)

**HOPE ACADEMY CATHEDRAL CAMPUS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 1999
(Continued)**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss \$357,988

**ADJUSTMENTS TO RECONCILE OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Depreciation 77,551
Noncash capital activity (604)

Changes in assets and liabilities:

(Increase) in grants receivable (168,771)
(Increase) in other receivable (264)
(Increase) in prepaid expenses (19,052)
Increase in accounts payable 4,222
Increase in accrued expenses 51,625
Increase in intergovernmental payable 42,384

Total adjustments (12,909)

Net cash provided by operating activities \$345,079

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

**HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hope Academy Cathedral 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.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 1998 through June 30, 1999. The School operates under a self-appointing three-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 17 non-certified and 17 certified full-time teaching personnel who provide services to 294 students. The Board also operates other Hope Academies in the City of Cleveland.

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 CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(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 budgetary presented to the Board for subsequent approval.

D. Cash and Cash Equivalents

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

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

E. Fixed Assets and Depreciation

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

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

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned and measurable.

Additionally, the school has applied and received approval for federal grant monies. Amounts awarded under the above named programs for the 1999 project year totaled \$166,571.

G. Accrued Expenses

Payroll (\$13,737), rent (\$14,208), and management fees (\$23,680) which are due but unpaid as of June 30, 1999, are reported as Accrued Expenses in the accompanying Balance Sheet.

HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Payable

The School has recognized on its balance sheet an amount classified as "Intergovernmental Payable". This figure represents the amount that is estimated to be refunded to the Ohio Department of Education based on the difference in the actual student full-time equivalent (FTE) enrollment as determined at the end of the year, compared to the October 1998 enrollment that the School's monthly funding was based upon. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year end.

On January 28, 2000, representatives from the Ohio Department of Education's Area Coordinator's Office (ODE) conducted a review of the School's enrollment data and reviewed the School's computation of FTE enrollment. On April 25, 2000, the ODE finalized the FTE audit and the resulting payable is reflected on the accompanying balance sheet.

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

At year-end, the carrying amount of the School's deposits was \$5,976, and the bank balance was \$20,785. All of the bank balance was covered by federal depository insurance.

4. GRANTS RECEIVABLE

Intergovernmental receivables of the School at June 30, 1999 consisted of federal program grants of \$166,571 and Federal Lunch Program reimbursements of \$2,200.

5. NOTES PAYABLE

The School has a \$525,000 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, 1999 and was renewed for an additional one-year period. The balance outstanding was \$7,714 at June 30, 1999. Interest expense of \$10,805 was paid at a rate of 10% for the year ended June 30, 1999. No interest amounts were payable at June 30, 1999.

Additionally, the School received a loan in the amount of \$50,000 from HOPE for Cleveland's Children, Inc., which is affiliated with White Hat Management, LLC. The loan will convert to an outright grant upon the School obtaining its federal tax-exempt status. No interest is payable on the loan.

**HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

6. FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 1999, follows:

Leaseholds	\$147,887
Furniture and Fixtures	36,840
Textbooks	83,280
Equipment	<u>289,786</u>
Subtotal	557,793
Less: Accumulated Depreciation	<u>(77,551)</u>
Net Fixed Assets	<u>\$480,242</u>

Equipment includes assets under a capital lease which have an original cost of \$263,786.

7. LEASES

During fiscal year 1999, the School entered into a capitalized lease with White Hat Management, LLC, for computers and technology. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No.13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments (\$263,786) as of the inception date of the lease.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 1999.

Year Ending <u>June 30</u>	<u>Amount</u>
2000	\$102,139
2001	102,139
2002	<u>8,512</u>
Total future minimum lease payments	212,790
Less: amount representing interest	<u>(21,420)</u>
Present value of future minimum lease payments	<u>\$191,371</u>

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 \$99,228 for the year ended June 30, 1999, of which \$14,208 was payable to White Hat Realty, LLC at June 30, 1999.

**HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

8. PURCHASED SERVICES

Purchased Services include the following:

Occupancy Costs	\$144,756
Professional Services	249,570
Food Service	53,308
Insurance	23,922
Advertising and Promotion	17,019
Other, Net	<u>19,144</u>
Total	<u>\$507,719</u>

9. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the School contracted with Westfield Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$1,200,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. General Star National Insurance Companies provides umbrella liability coverage of \$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 no deductible.

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

10. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits - The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 60% and 75% of the monthly premium for family and single employees, respectively. The employee is responsible for the remaining percentage. For fiscal year 1999, the School's and the employees' monthly premiums were \$210.95 and \$146.06 for family coverage and \$97.36 and \$32.46 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 60% of the monthly premium for single and family employees, respectively. The employee is responsible for the remaining percentage. For the fiscal year 1999, the School's and employees' premiums for vision were \$8.42 and \$5.84 for family coverage and \$3.86 and \$1.29 for single coverage per employee per month, respectively. The School's and employees' monthly premiums for dental were \$31.12 and \$22.59 for family coverage and \$12.79 and \$4.26 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 noncertified employees. The School pays premiums for this coverage at a rate of \$4.88 per employee per month.

HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 1999, 10.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 1999 was \$32,041, of which 100% was contributed at June 30, 1999.

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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 12 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, 1999 was \$49,108, of which 100% was contributed at June 30, 1999.

12. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$11,593 during the 1999 fiscal year.

HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

12. POST EMPLOYMENT BENEFITS (Continued)

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 1999, employer contributions to fund health care benefits were 3.5 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 1999, the minimum pay was established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$24,975 during the 1999 fiscal year.

13. 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, 1999, \$165,380 was expended by the School under the Consulting Agreement and no amounts were payable under the incentive fee arrangement. The Consulting Agreement also required the School to pay WHM a front-end fee of \$50,001 for assistance in obtaining the School's charter agreement with the Ohio Department of Education. In addition, the Consulting Agreement also requires the School to fund an advertising and recruitment program fee at a rate of 3% of qualified gross revenues, which amounted to \$23,922, of which \$19,052 was prepaid to WHM under the Consulting Agreement at June 30, 1999. Amounts payable under the Consulting Agreement to WHM were \$23,680 at June 30, 1999.

The School has also entered into a Deficit Guaranty Agreement with WHM which requires WHM to guarantee any and all operating deficits up to an amount specified in the agreement itself.

14. CONTINGENCIES

A. Grants

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

**HOPE ACADEMY CATHEDRAL CAMPUS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

14. CONTINGENCIES (Continued)

B. Federal Tax Exemption Status

The School has applied for status as an exempt organization under Internal Revenue Code Section 501 (c)(3). The Internal Revenue Service (IRS) issued a proposed conclusion that the School does not qualify for federal tax exemption under Section 501 (c)(3) of the Internal Service Code and must file federal income tax returns. The IRS has agreed to an extension of time until July 31, 2000 for the School to file a protest of the proposed denial of exemption under Section 501 (c)(3). The School's Board of Trustees expects to file a formal protest under IRS procedures. Presently, the School is unable to assess the likelihood of obtaining federal tax exempt status under Section 501 (c)(3). Should the School fail to obtain federal tax exempt status, it will be subject to federal income tax, the effect of which has not been assessed.

15. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School. During the fiscal year ended June 30, 1999, the School recorded \$1,160,744 in school foundation revenue.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 27, 1997, decision, however, it found seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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



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

Members of the Board of Trustees
Hope Academy - Cathedral Campus Community School
Cuyahoga County
10615 Lamontier
Cleveland, Ohio 44104

We have audited the financial statements of the Hope Academy - Cathedral Campus Community School, Cuyahoga County, Ohio, (the Community School) as of and for the year ended June 30, 1999, and have issued our report thereon dated July 21, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Community School in a separate letter dated July 21, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

July 21, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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HOPE ACADEMY CATHEDRAL 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
AUGUST 10, 2000**