

# **Audited Financial Statements**

For the Year Ended June 30, 2010 and For  
the Period Ended July 20, 2010

**Hope Academy Broadway Campus**

**Cleveland, Ohio**





# Dave Yost • Auditor of State

Board of Directors  
Hope Academy Broadway Campus  
3398 E. 55th St.  
Cleveland, Oh 44127

We have reviewed the *Independent Auditor's Report* of the Hope Academy Broadway Campus, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through July 20, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 4, 2011

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**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 15, 2010

To The Board of Directors  
Hope Academy Broadway Campus  
3398 E. 55<sup>th</sup> St.  
Cleveland, Oh 44127

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Hope Academy Broadway Campus (the School), as of and for the year ended June 30, 2010 and as of July 20, 2010 and the period July 1, 2010 to July 20, 2010, which collectively comprise the School's basic financial statements 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 respective financial position of Hope Academy Broadway Campus, as of June 30, 2010 and July 20, 2010, and the respective changes in financial position and cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 15, the School ceased operations on July 20, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Rea & Associates, Inc.*

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD ENDED JULY 20, 2010  
(Unaudited)**

The discussion and analysis of the Hope Academy Broadway Campus' (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2010 and the period of July 1, 2010 to July 20, 2010. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

As of and for fiscal year ended June 30, 2010:

- In total, net assets decreased \$87,268 which represents a 14.2 percent decrease from 2009. This decrease is due to the loss on sale of capital assets.
- Total assets decreased \$46,944 which represents a 6.1 percent decrease from 2009. This was primarily due to a decrease in capital assets from the previous year.
- Liabilities increased \$40,324 which represents a 26.1 percent increase from 2009. The increase in liabilities is due to an increase in grants payable due to the management company at year end.

As of July 20, 2010 and for period July 1, 2010 to July 20, 2010:

- In total, net assets decreased \$3,417.
- There was \$484 in interest income, but no operating revenues or grant revenues during the period
- The school voted on July 20, 2010 to close the school, due to various non-financial related issues. See Note 15 for further details.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The School uses enterprise presentation for all of its activities.

**Statement of Net Assets**

The Statement of Net Assets answers the question of how the School did financially during 2010. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.



**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD ENDED JULY 20, 2010  
(Unaudited)**

Table 1 provides a summary of the School's net assets for fiscal years 2010, 2009 and the period of July 1, 2010 to July 20, 2010.

(Table 1)  
**Statement of Net Assets**

|                              | July 20,<br>2010        | June 30,<br>2010        | June 30,<br>2009        |
|------------------------------|-------------------------|-------------------------|-------------------------|
| <b>Assets</b>                |                         |                         |                         |
| Current Assets               | \$844,737               | \$701,618               | \$637,528               |
| Capital Assets, Net          | 22,040                  | 22,040                  | 133,074                 |
| Total Assets                 | <u>866,777</u>          | <u>723,658</u>          | <u>770,602</u>          |
| <b>Liabilities</b>           |                         |                         |                         |
| Current Liabilities          | <u>341,177</u>          | <u>194,641</u>          | <u>154,317</u>          |
| <b>Net Assets</b>            |                         |                         |                         |
| Investment in Capital Assets | 22,040                  | 22,040                  | 133,074                 |
| Unrestricted                 | <u>503,560</u>          | <u>506,977</u>          | <u>483,211</u>          |
| Total Net Assets             | <u><u>\$525,600</u></u> | <u><u>\$529,017</u></u> | <u><u>\$616,285</u></u> |

Fiscal year 2010 total assets decreased \$46,944 from 2009. This was primarily due to the sale of capital assets. Fiscal year 2010 Liabilities increased \$40,324 from 2009. The increase in liabilities is due to an increase in grants payable due to the management company at year end. For the period ending July 20, 2010 net assets decreased \$3,417 due to increased liabilities.

**Statement of Revenues, Expenses and Changes in Net Assets**

Table 2 shows the changes in net assets for fiscal year 2010, fiscal year 2009, and the period July 1, 2010 to July 20, 2010, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD ENDED JULY 20, 2010  
(Unaudited)**

(Table 2)

**Change in Net Assets**

|                                     | July 20,<br>2010         | June 30,<br>2010          | June 30,<br>2009        |
|-------------------------------------|--------------------------|---------------------------|-------------------------|
| <b>Operating Revenues</b>           |                          |                           |                         |
| State Aid                           | \$ -                     | \$3,061,900               | \$3,629,275             |
| <b>Non-Operating Revenue</b>        |                          |                           |                         |
| Grants                              | -                        | 1,540,675                 | 843,100                 |
| Interest Income                     | 484                      | 6,604                     | 8,434                   |
| Total Revenues                      | <u>484</u>               | <u>4,609,179</u>          | <u>4,480,809</u>        |
| <b>Operating Expenses</b>           |                          |                           |                         |
| Purchased Services: Management Fees | -                        | 2,923,343                 | 3,423,034               |
| Purchased Services: Grant Programs  | -                        | 1,540,675                 | 831,313                 |
| Sponsorship Fees                    | -                        | 15,287                    | 18,146                  |
| Legal                               | 960                      | 31,534                    | 17,459                  |
| Auditing & Accounting               | 1,680                    | 26,628                    | 25,665                  |
| Insurance                           | 207                      | 1,646                     | 1,838                   |
| Board of Education                  | 702                      | 13,238                    | 3,317                   |
| Depreciation                        | -                        | 56,077                    | 54,055                  |
| Professional Services               | 36                       | 26,821                    | 66,189                  |
| Miscellaneous Expense               | 316                      | 6,240                     | 2,365                   |
| <b>Non-Operating Expenses</b>       |                          |                           |                         |
| Loss on Sale of Asset               | -                        | 54,958                    | -                       |
| Total Expenses                      | <u>3,901</u>             | <u>4,696,447</u>          | <u>4,443,381</u>        |
| Change in Net Assets                | <u><u>\$ (3,417)</u></u> | <u><u>\$ (87,268)</u></u> | <u><u>\$ 37,428</u></u> |

For fiscal year 2010, the primary reason for the increase in overall revenues from 2009 was the increase in grants revenue from federal stimulus funds. For fiscal year 2010, the School's most significant expenses, "Purchased Services" increased due to increased grant awards. The management agreement provides that specific percentages of the revenues received by the School will be paid to WHLS to fund operations. For the period ending July 20, 2010, net assets decreased \$3,417. All students were transferred as of June 30, 2010, as a result, \$0 foundation revenues were received during this period. The decrease in expenses is also a result of the transfer of students.

**Budgeting Highlights**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year projection that is reviewed periodically by the Board of Directors. The five-year projections are also submitted to the Sponsor and the Ohio Department of Education.

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD ENDED JULY 20, 2010  
(Unaudited)**

**Capital Assets**

At the end of fiscal year 2010 and the period ending July 20, 2010 the School had \$22,040, invested in Equipment, which represented a decrease of \$111,034 from 2009. The School also has Furniture and Fixtures and Leasehold Improvements, which are fully depreciated. Table 3 shows the respective balances for both fiscal years 2010 and fiscal year 2009.

(Table 3)

**Capital Assets (Net of Depreciation)**

|                        | <u>2010</u>      | <u>2009</u>       |
|------------------------|------------------|-------------------|
| Equipment              | \$ 22,040        | \$ 43,029         |
| Leasehold Improvements | -                | 90,045            |
| Totals                 | <u>\$ 22,040</u> | <u>\$ 133,074</u> |

There were no capital assets purchased or disposed of during the period ending July 20, 2010. For more information on capital assets, see Note 7 in the Notes to the Basic Financial Statements.

**Current Financial Issues**

The Hope Academy Broadway Campus received revenue for 434 students in 2010 (a decrease from 2009 of 54) and has closed as of July 20, 2010. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$7,055 in fiscal year 2010 with no increases in State Basic Aid planned in fiscal year 2010. The School receives additional revenues from grant subsidies.

On July 1, 2005, the School contracted with the Ohio Council of Community Schools as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. Ohio Council of Community Schools charged a one half of one percent of State Aid to be paid by the School for fiscal year 2010.

The school closed its operations effective July 20, 2010.

**Contacting the School's Financial Management**

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Brian G. Adams, Fiscal Officer for the Hope Academy Broadway Campus, 7215 Sawmill Rd, Suite 050, Dublin, OH 43016 or e-mail at [badams@ocscltd.com](mailto:badams@ocscltd.com).

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

**ASSETS**

Current Assets

|                           |                |
|---------------------------|----------------|
| Cash and Cash Equivalents | \$510,903      |
| Accounts Receivable       | 689            |
| Grants Funding Receivable | 183,260        |
| Receivable from Schools   | <u>6,766</u>   |
| Total Current Assets      | <u>701,618</u> |

Noncurrent Assets

|                                 |               |
|---------------------------------|---------------|
| Depreciable Capital Assets, net | <u>22,040</u> |
|---------------------------------|---------------|

|                     |                       |
|---------------------|-----------------------|
| <b>Total Assets</b> | <b><u>723,658</u></b> |
|---------------------|-----------------------|

**LIABILITIES**

Current Liabilities

|                        |            |
|------------------------|------------|
| Accounts Payable       | 11,279     |
| Grants Funding Payable | 183,260    |
| Payable to Schools     | <u>102</u> |

|                          |                       |
|--------------------------|-----------------------|
| <b>Total Liabilities</b> | <b><u>194,641</u></b> |
|--------------------------|-----------------------|

**NET ASSETS**

|                              |                |
|------------------------------|----------------|
| Investment in Capital Assets | 22,040         |
| Unrestricted                 | <u>506,977</u> |

|                         |                         |
|-------------------------|-------------------------|
| <b>Total Net Assets</b> | <b><u>\$529,017</u></b> |
|-------------------------|-------------------------|

See accompanying notes to the basic financial statements

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**OPERATING REVENUES**

State Aid \$3,061,900

**OPERATING EXPENSES**

|                                     |              |
|-------------------------------------|--------------|
| Purchased Services: Management Fees | 2,923,343    |
| Purchased Services: Grant Programs  | 1,540,675    |
| Sponsorship Fees                    | 15,287       |
| Legal                               | 31,534       |
| Auditing and Accounting             | 26,628       |
| Insurance                           | 1,646        |
| Board of Education                  | 13,238       |
| Depreciation                        | 56,077       |
| Professional Services               | 26,821       |
| Miscellaneous                       | <u>6,240</u> |

**Total Operating Expenses** 4,641,489

**Operating Loss** (1,579,589)

**NON-OPERATING REVENUE/(EXPENSES)**

|                                       |                 |
|---------------------------------------|-----------------|
| Grants                                | 1,540,675       |
| Interest Income                       | 6,604           |
| Loss on Disposition of Capital Assets | <u>(54,958)</u> |

**Total Non-Operating Revenue** 1,492,321

**Change in Net Assets** (87,268)

**Net Assets Beginning of Year** 616,285

**Net Assets End of Year** \$ 529,017

See accompanying notes to the basic financial statements

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                    |
|---|--------------------|
| Cash Received from State of Ohio                  | \$ 3,061,900       |
| Cash Payments to Suppliers for Goods and Services | <u>(4,538,360)</u> |
| Net Cash Used For Operating Activities            | (1,476,460)        |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|                           |           |
|---------------------------|-----------|
| Cash Received from Grants | 1,496,567 |
|---------------------------|-----------|

**CASH FLOWS FROM INVESTING ACTIVITIES**

|  |              |
|--|--------------|
| Cash Received from Interest on Investments | <u>6,604</u> |
|--|--------------|

**Net Increase in Cash and Cash Equivalents** 26,711

**Cash and Cash Equivalents Beginning of Year** 484,192

**Cash and Cash Equivalents End of Year** \$ 510,903

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

|                |               |
|----------------|---------------|
| Operating Loss | \$(1,579,589) |
|----------------|---------------|

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

|                                    |              |
|------------------------------------|--------------|
| Depreciation                       | 56,077       |
| Changes in Assets and Liabilities: |              |
| Continuing Fees Receivable         | 13,229       |
| Receivable From School             | (6,500)      |
| Accounts Payable                   | 96           |
| Grant Funding Payable              | 42,108       |
| Sponsor Fee Payable                | (1,608)      |
| Payable to Schools                 | <u>(273)</u> |

**Net Cash Used For Operating Activities** \$(1,476,460)

See accompanying notes to the basic financial statements

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS  
JULY 20, 2010**

**ASSETS**

Current Assets

|                            |              |
|----------------------------|--------------|
| Cash and Cash Equivalents  | \$733,346    |
| Accounts Receivable        | 689          |
| Grants Funding Receivable  | 90,109       |
| Continuing Fees Receivable | 18,929       |
| Receivable from Schools    | <u>1,664</u> |

Total Current Assets 844,737

Noncurrent Assets

Depreciable Capital Assets, net 22,040

**Total Assets** 866,777

**LIABILITIES**

Current Liabilities

|                        |            |
|------------------------|------------|
| Accounts Payable       | 733        |
| Grants Funding Payable | 90,109     |
| State Funding Payable  | 250,197    |
| Payable to Schools     | <u>138</u> |

**Total Liabilities** 341,177

**NET ASSETS**

|                              |                |
|------------------------------|----------------|
| Investment in Capital Assets | 22,040         |
| Unrestricted                 | <u>503,560</u> |

**Total Net Assets** \$525,600

See accompanying notes to the basic financial statements

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD JULY 1, 2010 TO JULY 20, 2010**

|                                     |                   |
|-------------------------------------|-------------------|
| <b>OPERATING REVENUES</b>           |                   |
| State Aid                           | \$ -              |
| <b>OPERATING EXPENSES</b>           |                   |
| Legal                               | 960               |
| Auditing and Accounting             | 1,680             |
| Insurance                           | 207               |
| Board of Education                  | 702               |
| Professional Services               | 36                |
| Miscellaneous                       | <u>316</u>        |
| <b>Total Operating Expenses</b>     | <u>3,901</u>      |
| <b>Operating Loss</b>               | <u>(3,901)</u>    |
| <b>NON-OPERATING REVENUE</b>        |                   |
| Interest Income                     | <u>484</u>        |
| <b>Total Non-Operating Revenue</b>  | <u>484</u>        |
| <b>Change in Net Assets</b>         | (3,417)           |
| <b>Net Assets Beginning of Year</b> | <u>529,017</u>    |
| <b>Net Assets End of Year</b>       | <u>\$ 525,600</u> |

See accompanying notes to the basic financial statements



**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD JULY 1, 2010 TO JULY 20, 2010**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                  |
|---|------------------|
| Cash Received from State of Ohio                  | \$ 250,197       |
| Cash Payments to Suppliers for Goods and Services | <u>(121,389)</u> |
| Net Cash Used For Operating Activities            | 128,808          |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|                           |        |
|---------------------------|--------|
| Cash Received from Grants | 93,151 |
|---------------------------|--------|

**CASH FLOWS FROM INVESTING ACTIVITIES**

|  |            |
|--|------------|
| Cash Received from Interest on Investments | <u>484</u> |
|--|------------|

|   |         |
|---|---------|
| Net Increase in Cash and Cash Equivalents | 222,443 |
|---|---------|

|   |                |
|---|----------------|
| Cash and Cash Equivalents Beginning of Year | <u>510,903</u> |
|---|----------------|

|                                       |                          |
|---------------------------------------|--------------------------|
| Cash and Cash Equivalents End of Year | <u><u>\$ 733,346</u></u> |
|---------------------------------------|--------------------------|

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

|                |            |
|----------------|------------|
| Operating Loss | \$ (3,901) |
|----------------|------------|

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets and Liabilities:

|                            |           |
|----------------------------|-----------|
| Continuing Fees Receivable | (18,929)  |
| Receivable From School     | 5,103     |
| Accounts Payable           | (10,547)  |
| Grant Funding Payable      | (93,151)  |
| State Funding Payable      | 250,197   |
| Payable to Schools         | <u>36</u> |

|  |                          |
|--|--------------------------|
| Net Cash Used For Operating Activities | <u><u>\$ 128,808</u></u> |
|--|--------------------------|

See accompanying notes to the basic financial statements

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**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010**

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

Hope Academy Broadway Campus (the School) is a federal 501(c)(3), 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 HA Broadway, LLC a wholly owned subsidiary of WHLS of Ohio LLC (WHLS). WHLS of Ohio, LLC, a Nevada limited liability company ("WHLS") dba White Hat Management Company, is the sole member of HA Broadway, LLC and is the entity with which the School's board interacts regarding day-to-day operations (see note 8 for details).

The School was originally approved for operation under contract with the Ohio State Board of Education for a period of five years from August 20, 1998 through June 30, 2003. The contract was subsequently renewed for a two year period from July 1, 2003 through June 30, 2005. Effective July 1, 2005, House Bill 364 required schools sponsored by the Ohio Department of Education to have new sponsorship in place by June 30, 2005. The School signed a contract with The Ohio Council for Community Schools (Sponsor), to operate for a period from July 1, 2005 through June 30, 2010.

The School operates under a self-appointing, seven-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The facility is staffed with teaching personnel employed by WHLS, who provide services to 434 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic 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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described on the following pages.

**A. Basis of Presentation**

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation (Continued)**

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**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 Statement of Net Assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net 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.

**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. In addition, the board adopted an operating budget at the beginning of fiscal year 2010. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

**D. Cash and Cash Equivalents**

All cash received by the School is maintained in a demand deposit account, a money market account, certificates of deposit, and STAROhio. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2010, investments were limited to the State Treasurer's Investment Pool, STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2010 and July 20, 2010.

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CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the Career Based Intervention (CBI) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements, include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2010 school year totaled \$4,602,575 and \$0 for the period July 1, 2010 to July 20, 2010.

**F. Capital Assets and Depreciation**

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

The capital assets are recorded on the accompanying Statement of Net Assets at cost, net of accumulated depreciation of \$22,040. Depreciation is computed by the straight-line method over five years for "Furniture and Fixtures", five years for "Equipment", and ten years for "Leasehold Improvements".

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with WHLS. (See Note 7)

**G. 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.

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets consist of capital assets, net of accumulated depreciation, and unrestricted net assets.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

**A. Deposits with Financial Institutions**

At June 30, 2010, the carrying amount of all School deposits was \$500,350 and its bank balance was \$501,511. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$251,511 of the School's bank balance of \$501,511 was exposed to custodial risk as discussed below. Only \$250,000 of the bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). As of July 20, 2010 the carrying amount and bank balance of the School's deposits was \$722,793. As of July 20, 2010, \$472,793 of the School's bank balance of \$722,793 was exposed to custodial risk as described below. Only \$250,000 of the bank balance was covered by FDIC.

The investment and deposit of the School's monies is governed by the provisions of the ORC. In accordance with these statutes, the School is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit and STAR Ohio.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School has no deposit policy for custodial credit risk beyond the requirements of state statute. According to state law, public depositories must give security for all public funds on deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. State law does not require security for public deposits and investments to be maintained in the School's name. During 2010, the School and public depositories complied with the provisions of these statutes.

**B. Investments**

As of June 30, 2010 and July 20, 2010, the School had the following investments and maturities:

| <u>Investment Type</u> | <u>Balance at<br/>Fair Value</u> | <u>Investment Maturities</u> |                           |                                   |
|------------------------|----------------------------------|------------------------------|---------------------------|-----------------------------------|
|                        |                                  | <u>6 months<br/>or less</u>  | <u>7 to 12<br/>months</u> | <u>Greater than<br/>12 months</u> |
| STAROhio               | \$10,553                         | \$10,553                     | \$ -                      | \$ -                              |

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Standard & Poor's has assigned STAROhio an AAAM money market rating.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (continued)**

*Concentration of Credit Risk:* The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2010 and July 20, 2010:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Percent to Total</u> |
|------------------------|-------------------|-------------------------|
| STAROhio               | \$10,553          | 100.00                  |

**4. GRANTS FUNDING RECEIVABLE/PAYABLE**

The School has recorded "Grants Funding Receivable" in the amount of \$183,260 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2010 and \$90,109 as of July 20, 2010.

Additionally, under the terms of the management agreement (See Note 7), the School has recorded a liability to WHLS in the amount of \$183,260 for 100 percent of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2010 and \$90,109 as of July 20, 2010.

**5. CAPITAL ASSETS AND DEPRECIATION**

For the year ended June 30, 2010, the School's capital assets consisted of the following:

|  | <u>Balance</u><br><u>06/30/09</u> | <u>Additions</u>  | <u>Deletions</u>   | <u>Balance</u><br><u>06/30/10</u> |
|--|-----------------------------------|-------------------|--------------------|-----------------------------------|
| <b>Capital Assets Being Depreciated:</b>           |                                   |                   |                    |                                   |
| Equipment  | \$ 104,943                        | \$ -              | \$ -               | \$ 104,943                        |
| Furniture and Fixtures                             | 24,500                            |                   |                    | 24,500                            |
| Leasehold Improvements                             | <u>337,074</u>                    | -                 | <u>(337,074)</u>   | -                                 |
| <b>Total Capital Assets Being Depreciated</b>      | <u>466,517</u>                    | -                 | <u>(337,074)</u>   | <u>129,443</u>                    |
| <b>Less Accumulated Depreciation:</b>              |                                   |                   |                    |                                   |
| Equipment  | (61,914)                          | (20,989)          | -                  | (82,903)                          |
| Furniture and Fixtures                             | (24,500)                          |                   |                    | (24,500)                          |
| Leasehold Improvements                             | <u>(247,029)</u>                  | <u>(35,088)</u>   | <u>282,117</u>     | -                                 |
| <b>Total Accumulated Depreciation</b>              | <u>(333,443)</u>                  | <u>(56,077)</u>   | <u>282,117</u>     | <u>(107,403)</u>                  |
| <b>Total Capital Assets Being Depreciated, Net</b> | <u>\$ 133,074</u>                 | <u>\$(56,077)</u> | <u>\$ (54,957)</u> | <u>\$ 22,040</u>                  |

There were no capital asset additions or deletions during the period July 1, 2010 to July 20, 2010. Therefore capital assets net of accumulated depreciation as July 20, 2010 are \$22,040.

**HOPE ACADEMY BROADWAY CAMPUS  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**6. 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. As part of its management agreement with WHLS, WHLS has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement (see Note 7). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

**Director and Officer** - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and a \$2,500 deductible.

**7. AGREEMENT WITH WHLS**

Effective November 1, 2005 the School entered into a multi-year Management Agreement (Agreement) with HA Broadway, LLC, a subsidiary of WHLS, which is an educational consulting and management company. The Agreement's term ran through June 30, 2009, was renewed for a one year term ending June 30, 2010. The school terminated its agreement on June 30, 2010. Substantially all functions of the School have been contracted to WHLS. WHLS is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 96 percent. "Continuing Fees" are defined in the Agreement as, "...the revenue per student received by the School from the State of Ohio Department of Education pursuant to Title 33 and other provisions of the Ohio Revised Code...".

With regard to grant funding, the Agreement reads as follows: "Federal Title Programs, lunch programs revenue, and other such federal, state and local government grant funding designated to compensate the school for the education of its students shall be fully paid to the Company." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues. As such, WHLS receives 96 percent of "State Aid" (see Note 2 E) and 100 percent of all other federal, state, and local grants. The School retains 4 percent of the "State Aid" as well as miscellaneous revenues generated from interest on deposits and donations.

The School had purchased service expenses for the fiscal year ended June 30, 2010, to WHLS of \$4,464,018 and \$0 for the period ended July 20, 2010, and payables to WHLS at June 30, 2010 aggregating to \$183,260 and \$90,109 at July 20, 2010. WHLS is responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**8. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2010, White Hat Ventures, LLC and its affiliates incurred the following expenses on behalf of the School.

|                                   | <u>2010</u>                |
|-----------------------------------|----------------------------|
| <b>Expenses</b>                   |                            |
| <b>Direct Expenses:</b>           |                            |
| Salaries & wages                  | \$ 1,494,574               |
| Employees' benefits               | 535,807                    |
| Professional & technical services | 606,101                    |
| Property services                 | 304,832                    |
| Travel                            | 5,526                      |
| Communications                    | 9,365                      |
| Utilities                         | 86,554                     |
| Books, periodicals, & films       | 49,391                     |
| Food & Related Supplies           | 138,834                    |
| Other supplies                    | 91,042                     |
| Depreciation                      | 96,559                     |
| Other direct costs                | 55,049                     |
| <b>Indirect Expenses:</b>         |                            |
| Overhead                          | 467,034                    |
| <b>Total Expenses</b>             | <u><u>\$ 3,940,670</u></u> |

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS**

The School has contracted with WHLS to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 7)

**A. School Employees Retirement System**

**Plan Description** – WHLS, on behalf of the School, contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the WHLS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. WHLS contributions to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$61,439, \$38,420, and \$39,983, respectively; of which 100 percent has been contributed.

**B. State Teachers Retirement System**

**Plan Description** – WHLS, on behalf of the School, contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan.

**HOPE ACADEMY BROADWAY CAMPUS  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

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

**B. State Teachers Retirement System (Continued)**

In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**Funding Policy** - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The above is the latest information available.

The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$139,652, \$152,624, and \$141,094 respectively, of which 100% has been contributed. Contributions to the DB and combined plans for fiscal year 2010 were \$124,726 made the school and \$89,090 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

**10. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement Systems**

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post employment benefit plans.

**HOPE ACADEMY BROADWAY CAMPUS  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**10. POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employee Retirement Systems (Continued)**

**Medicare Part B**

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2010, the actuarial required allocation is .76 percent. The Schools' contributions for the years ended June 30, 2010, 2009 and 2008 were \$3,654, \$3,170, and \$2,881, respectively, of which 100% has been contributed.

**Health Care Plan**

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is .46 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year June 30, 2010, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Schools' contributions assigned to health care for the years ended June 30, 2010, 2009 and 2008 were \$9,662, \$24,109, and \$24,946, respectively, of which 100% has been contributed.

The SERS Retirement Board established the rules for the premiums paid by the retirees for healthcare coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)

10. **POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employee Retirement Systems (Continued)**

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under **Employers/Audit Resources**.

**B. State Teachers Retirement System**

**Plan Description** – WHLS, on behalf of the School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$10,742, \$11,740, and \$10,853, respectively, all of which has been contributed for all fiscal years.

11. **CONTINGENCES**

**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 adjustments will not have a material adverse effect on the financial position of the School.

**B. Pending Litigation**

In October 2007, the School filed lawsuits against Integrated Consulting Management and Community Educational Partnerships for matters related to their contracts. Both organizations have in turn countersued the School. The effects of these lawsuits are presently not determinable.

In February 2009, the School filed a Lawsuit against the WHLS and its affiliates for matters related to the management agreement. The effect of this lawsuit is presently not determinable.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010 AND THE PERIOD JULY 1, 2010 TO JULY 20, 2010  
(Continued)**

**11. CONTINGENCES (Continued)**

**C. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. This adjustment was immaterial to the Financial Statements. The review as of June 30, 2010 will serve as the final review, as all students were transferred as of that date and the School did not receive any foundation payments for the period ended July 20, 2010.

**12. SPONSORSHIP FEES**

The School contracted with the Ohio Council for Community Schools as its sponsor effective July 1, 2005. The School pays the Sponsor one-half of one percent of the State Aid. Total fees for fiscal 2010 were \$15,287 and \$0 for the period ended July 20, 2010. The contract is for five years ending June 30, 2010. The sponsor provides oversight, monitoring and technical assistance for the school.

**13. TAX EXEMPT STATUS**

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.

**14. RECEIVABLES/PAYABLES TO SCHOOLS**

The School shares costs for certain professional services other Hope Academies and Life Skills Centers. As of June 30, 2010, the School has \$6,766 due from other schools (receivable) and \$102 due to other schools (payable) for various payments made for these schools. As of July 20, 2010, the School has \$1,664 due from other schools and \$138 due to other schools.

**15. SCHOOL CLOSURE/SUBSEQUENT EVENTS**

The Board elected to close the school via resolution, effective June 30, 2010 for various non-financially related matters.

The School has followed the closing procedures prescribed by the Ohio Department of Education (ODE). These procedures included official notification to ODE, retirement systems, the students and the community of the School's decision to close, disposition of assets, and preparation of financial statements.

As of July 20, 2010, the School had \$250,197 in State Funding Payable shown on the July 20, 2010 Statement of Net Assets. This was due to an erroneous payment from the Ohio Department of Education for State Aid. This amount has been returned to the State. As of December 15, 2010, the School had a cash balance of \$470,827 and liabilities of \$5,084. However, the school is still in litigation (see note 11) and the associated costs/liabilities are not presently determinable. Once all costs and liabilities are known, the School will pay its final costs and any residual cash balances remaining will be remitted to the Ohio Department of Education per Ohio Revised Code 3314.074.

# **Hope Academy Broadway Campus Cuyahoga County**

\* \* \* \*

*Audit Report Letters*

***June 30, 2010  
&  
July 20, 2010***

**Hope Academy Broadway Campus  
Cuyahoga County**

***Audit Report Letters***

***June 30, 2010  
&  
July 20, 2010***

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 15, 2010

To The Board of Directors  
Hope Academy Broadway Campus  
3398 E. 55<sup>th</sup> St.  
Cleveland, OH 44127

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Hope Academy Broadway Campus (the School) as of and for the year ended June 30, 2010 and as of and the period ended July 20, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 15, 2010 wherein we noted the School ceased operations on July 20, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses as defined above.

### **Compliance and Other Matters**

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 grant agreements, 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 or other matters that we must report under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hope Academy Broadway Campus in a separate letter dated December 15, 2010.

This report is intended solely for the information and use of the Board of Directors, audit committee, management, federal awarding agencies and pass-through agencies, and the School's sponsor, and is not intended to be and should not be used by anyone other than these specific parties.

*Rea & Associates, Inc.*



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 15, 2010

To the Board of Directors  
Hope Academy Broadway Campus  
3398 E. 55th St.  
Cleveland, Oh 44127

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

## **Compliance**

We have audited the compliance of the Hope Academy Broadway Campus with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Hope Academy Broadway Campus' major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hope Academy Broadway Campus' management. Our responsibility is to express an opinion on Hope Academy Broadway Campus' 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hope Academy Broadway Campus' 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 of Hope Academy Broadway Campus' compliance with those requirements.

In our opinion, Hope Academy Broadway Campus complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

### **Internal Control Over Compliance**

Management of Hope Academy Broadway Campus 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 Hope Academy Broadway Campus' 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hope Academy Broadway Campus' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of Hope Academy Broadway Campus as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010 wherein we noted the School ceased operations on July 20, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, audit committee, others within the school, the School's sponsor, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

*Hea & Associates, Inc.*

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

| Federal Grantor/ Pass-Through Grantor/ Program Title    | CFDA # | Grant Year | Revenues                   | Expenses                   |
|---|--------|------------|----------------------------|----------------------------|
| <b>U. S. Department of Education</b>                    |        |            |                            |                            |
| <i>Passed Through Ohio Department of Education:</i>     |        |            |                            |                            |
| <i>Title I Cluster</i>                                  |        |            |                            |                            |
| Title I   | 84.010 | 2010       | \$ 575,318                 | \$ 575,318                 |
| ARRA - Title I  | 84.389 | 2010       | 195,979                    | 195,979                    |
| <i>Total Title I Cluster</i>                            |        |            | <u>771,297</u>             | <u>771,297</u>             |
| <i>Special Education Cluster</i>                        |        |            |                            |                            |
| Special Education IDEA Part B                           | 84.027 | 2010       | 106,548                    | 106,548                    |
| ARRA - Special Education IDEA Part B                    | 84.391 | 2010       | 44,712                     | 44,712                     |
| <i>Total Special Education Cluster</i>                  |        |            | <u>151,260</u>             | <u>151,260</u>             |
| Safe and Drug-Free Schools                              | 84.186 | 2010       | 6,659                      | 6,659                      |
| Technology Literacy Challenge Fund Grant                | 84.318 | 2010       | 5,152                      | 5,152                      |
| Improving Teacher Quality                               | 84.367 | 2010       | 129,800                    | 129,800                    |
| School Improvement Grants                               | 84.377 | 2010       | 41,807                     | 41,807                     |
| ARRA - State Fiscal Stabilization Fund                  | 84.394 | 2010       | 206,970                    | 206,970                    |
| <i>Total U.S. Department of Education</i>               |        |            | <u>1,312,945</u>           | <u>1,312,945</u>           |
| <b>U. S. Department of Agriculture</b>                  |        |            |                            |                            |
| <i>Passed Through the Ohio Department of Education:</i> |        |            |                            |                            |
| ARRA - School Lunch Equipment                           | 10.579 | 2010       | 11,787                     | 11,787                     |
| <i>Child Nutrition Cluster:</i>                         |        |            |                            |                            |
| School Breakfast Program                                | 10.553 | 2010       | 52,676                     | 52,676                     |
| National School Lunch Program                           | 10.555 | 2010       | 164,724                    | 164,724                    |
| <i>Total Child Nutrition Cluster</i>                    |        |            | <u>217,400</u>             | <u>217,400</u>             |
| <i>Total U.S. Department of Agriculture</i>             |        |            | <u>229,187</u>             | <u>229,187</u>             |
| <b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>               |        |            | <u><u>\$ 1,542,132</u></u> | <u><u>\$ 1,542,132</u></u> |

The accompanying notes are an integral part of this schedule.

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using the full accrual basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C - TRANSFERS**

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. There were no transfers of federal funds from fiscal year 2009 to fiscal year 2010.

**HOPE ACADEMY BROADWAY CAMPUS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , SECTION .505  
FOR THE YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

|                |  |   |
|----------------|--|---|
| (d) (1) (i)    | Type of Financial Statement Opinion  | Unqualified                               |
| (d) (1) (ii)   | Were there any material control weakness conditions reported at the financial statement level (GAGAS)?               | No  |
| (d) (1) (ii)   | Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No  |
| (d) (1) (iii)  | Was there any reported material non-compliance at the financial statement level (GAGAS)?                             | No  |
| (d) (1) (iv)   | Were there any material internal control weakness conditions reported for major federal programs?                    | No  |
| (d) (1) (iv)   | Were there any other significant deficiencies in internal control reported for major federal programs?               | No  |
| (d) (1) (v)    | Type of Major Programs' Compliance Opinion   | Unqualified                               |
| (d) (1) (vi)   | Are there any reportable findings under Section .510?  | No  |
| (d) (1) (vii)  | Major Programs (list):   | Title I Cluster, CFDA # 84.010, 84.389    |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs  | Type A: > \$300,000<br>Type B: All others |
| (d) (1) (ix)   | Low Risk Auditee?  | Yes                                       |

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

None were noted.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None were noted.







# Dave Yost • Auditor of State

**HOPE ACADEMY BROADWAY 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  
FEBRUARY 17, 2011**