



**Auditor of State  
Betty Montgomery**



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Hope Academy Chapelside Campus  
Cuyahoga County  
3845 East 131 Street  
Cleveland, Ohio 44120

To the Board of Trustees:

We have audited the Balance Sheet of the Hope Academy Chapelside Campus, Cuyahoga County, Ohio, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hope Academy Chapelside Campus, Cuyahoga County, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2004, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

March 31, 2004

**Hope Academy Chapelside Campus  
Cuyahoga County  
Balance Sheet  
As of June 30, 2003**

**ASSETS**

Current Assets

Cash and Cash Equivalents	\$ 1,205
State Funding Receivable	28,915
Refund Receivable	16,543
Grants Receivable	<u>118,156</u>

Total Current Assets	164,819
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Noncurrent Assets

Property and Equipment - net	<u>573,994</u>
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<b>Total Assets</b>	<b><u><u>\$ 738,813</u></u></b>
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**LIABILITIES and EQUITY**

Current Liabilities

Accounts Payable	\$ 7,278
Grants Funding Payable	99,913
Continuing Fees Payable	<u>28,047</u>

Total Current Liabilities	135,238
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**EQUITY**

Retained Earnings	<u>603,575</u>
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<b>Total Liabilities and Equity</b>	<b><u><u>\$ 738,813</u></u></b>
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The notes to the financial statements are an integral part of this statement.

**Hope Academy Chapelside Campus  
Cuyahoga County  
Statement of Revenues, Expenses, and Changes in Retained Earnings  
For the Year Ended June 30, 2003**

**OPERATING REVENUE**

State Foundation	\$ 2,729,884
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**OPERATING EXPENSES**

Purchased Services: Management Fees	2,650,379
Purchased Services: Grant Administration	594,784
Legal	36,101
Advertising	3,466
Insurance	12,833
Auditing and Accounting	1,985
Depreciation	166,546
Board Stipends	4,055
Miscellaneous	59
<b>Total Operating Expenses</b>	<u>3,470,208</u>

<b>Operating Loss</b>	<b>(740,324)</b>
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**NON-OPERATING REVENUES**

Grants	594,784
Debt Forgiveness	277,809
Miscellaneous Revenue	1,217
<b>Total Non-Operating Revenues</b>	<u>873,810</u>

<b>Net Income</b>	<b>133,486</b>
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<b>Retained Earnings, July 1, 2002</b>	<u>470,089</u>
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<b>Retained Earnings, June 30, 2003</b>	<u><u>\$ 603,575</u></u>
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The notes to the financial statements are an integral part of this statement.



**Hope Academy Chapelside Campus  
Cuyahoga County  
Statement of Cash Flows  
For the Year Ended June 30, 2003**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from State and Federal Sources	\$ 2,756,252
Cash Payments to Suppliers for Goods and Services	<u>(3,579,036)</u>
Net Cash Used for Operating Activities	(822,784)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received from Debt Forgiveness	277,809
Cash Received from Grant Programs	476,628
Cash Received from Miscellaneous Revenue	<u>1,217</u>
Net Cash Provided by Noncapital Financing Activities	755,654
Net Decrease in Cash and Cash Equivalents	(67,130)
Cash and Cash Equivalents at Beginning of Year	<u>68,335</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,205</u></u>

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

Operating Loss	\$ (740,324)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	166,546
Changes in Assets and Liabilities:	
Refund Receivable	(16,543)
State Funding Receivable	(28,915)
Intergovernmental Receivable	55,056
Accounts Receivable	227
Prepaid Insurance	4,894
Accounts Payable	(146,755)
Intergovernmental Payable	(25,780)
Grants Funding Payable	99,913
Accrued Expenses	(219,150)
Continuing Fees Payable	<u>28,047</u>
Total Adjustments	<u>(82,460)</u>
Net Cash Used for Operating Activities	<u><u>\$ (822,784)</u></u>

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

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**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

Hope Academy Chapelside Campus (the School) is a federal 501(c)(3) tax-exempt, 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 WHLS of Ohio, LLC (WHLS) for most of its functions. See Note 9.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years from August 20, 1998 through June 30, 2003. The contract was also renewed with the Ohio State Board of Education for a subsequent two year period from July 1, 2003 through June 30, 2005. The School operates under a self-appointing, eight-member Board of Trustees (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 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, which is leased by WHLS. The facility is staffed with teaching personnel employed by WHLS, who provide services to 463 students. The Board operates 5 other Hope Academies and 2 Life Skills Centers in the cities of Akron and Cleveland. In Cleveland, they also operate the HOPE Academy Cathedral Campus, HOPE Academy Broadway Campus, HOPE Academy Lincoln Park Campus, and the Life Skills Center of Cleveland. In Akron, they operate the Life Skills Center of Akron, HOPE Academy Brown Street Campus, and HOPE Academy University Campus.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**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) 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. 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.

**C. BUDGETARY PROCESS**

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

**D. CASH AND CASH EQUIVALENTS**

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

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**E. FIXED ASSETS AND DEPRECIATION**

For purposes of recording fixed assets, the Board has a capitalization threshold of \$1,000. For the year ended June 30, 2003, these assets consisted of the following:

Facility Improvements	\$485,542
Computers and Software	367,778
Textbooks	142,121
Equipment	42,285
Furniture and Fixtures	<u>54,520</u>
 Total	 1,092,246
Less: Accumulated Depreciation	<u>(518,252)</u>
 Property and Equipment – net	 <u>\$ 573,994</u>

The assets are recorded on the accompanying balance sheet at cost, net of accumulated depreciation of \$518,252. Depreciation is computed by the straight-line method over 5 years for “Computers and Software”, 7 years for “Equipment”, “Furniture and Fixtures”, and “Textbooks” and 10 years for “Facility Improvements”.

Aside from those mentioned above, the School has no other fixed assets, as the School operates under a management agreement with WHLS. (See Note 9.)

**F. 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. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**F. INTERGOVERNMENTAL REVENUES (Continued)**

Amounts awarded under the above programs for the 2003 school year totaled \$3,324,668.

**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.

**3. DEPOSITS**

At year-end, the carrying amount of the School's deposits was \$1,205 and the bank balance was \$2,603. Of the bank balance, all was covered by federal depository insurance.

**4. REFUND RECEIVABLE**

The "Refund Receivable" of \$16,543 on the Balance Sheet represents an overpayment made during the year to WHLS for grant administration. This amount was refunded to the School on July 3, 2003.

**5. STATE FUNDING RECEIVABLE**

The School has recognized on its balance sheet a "State Funding Receivable" for the amount of State Basic Aid estimated to be paid to the School by the Ohio Department of Education (ODE) based on the difference in the amount the School actually received versus the amount earned through student full-time equivalent (FTE) enrollment as determined at the end of the year. A receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the FTE enrollment figure was calculated to be at year-end. At June 30, 2003 the amount of "State Funding Receivable" related to FTE was \$28,915.

**6. CONTINUING FEES PAYABLE**

Under the terms of the management agreement with WHLS (See Note 9), a related "Continuing Fees Payable" in the amount of \$28,047 has been recorded by the School for 97% of the amount of "State Funding Receivable" due from the State. (See Note 5.)

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**7. GRANTS RECEIVABLE/ PAYABLE**

The School has recorded "Grants Receivable" in the amount of \$118,156 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2003.

Additionally, under the terms of the management agreement (See Note 9), the School has recorded a liability to WHLS in the amount of \$99,913 for 100% of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2003.

**8. RISK MANAGEMENT**

**Property and Liability** - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years (See Note 9.)

**Director and Officer** - Coverage has been purchased by the School with a \$1,000,000 aggregate limit and no deductible.

**9. AGREEMENT WITH WHLS**

Effective July 1, 2002, the School terminated its Amended and Restated Management Consulting, Technology Support, and License Agreement with White Hat Management, LLC and entered into a new five-year Management Agreement (Agreement) with WHLS which is an educational consulting and management company. The term of the new Agreement with WHLS coincides with the School's charter agreement. Substantially all functions of the School have been contracted to WHLS. WHLS is responsible and accountable to the School's Board of Trustees (the "School Board") for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2003 to WHLS of \$3,245,163 and payables to WHLS at June 30, 2003 aggregating \$127,960.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. AGREEMENT WITH WHLS (Continued)**

Significant provisions of the Agreement are as follows:

Financial Provisions

Management, Consulting, and Operation Fee. The School is required to pay WHLS a monthly continuing fee of 97% of the School's "Qualified Gross Revenues", defined in the Agreement as, WHLS "...all revenues and income received by the School except for charitable contributions" and "shall receive 100% of any and all grants or funding of any kind generated by WHLS, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues.

Other School Financial Responsibilities. The School is responsible for its directors' and officers' insurance, legal fees for School Board representation and general corporate matters, accounting, audit, tax and consulting fees for the School, and other miscellaneous expenses not incurred in the normal day-to-day operation of the School.

WHLS Financial Responsibilities

Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by WHLS. Such costs include, but are not limited to, salaries and benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the School is the property of WHLS, unless purchased directly by the School with Federal funds.

WHLS is required to maintain, at WHLS' expense, commercial general liability insurance in the name of the School in an amount not less than \$1 million per occurrence and \$2 million in the aggregate, and excess umbrella liability insurance of not less than \$10 million per occurrence and \$15 million in the aggregate.

Personnel

WHLS has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer and terminate personnel, consistent with state and federal law and the Agreement.



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. AGREEMENT WITH WHLS (Continued)**

Compensation and benefits of all employees of the School is paid by WHLS. If WHLS fails to pay this compensation, the School, in its sole discretion, may pay such compensation and offset the amount by withholding an equal amount from the fees owed to WHLS under the Agreement.

Agreement Termination

Termination by the School. The School may terminate the Agreement in the event WHLS materially breaches the Agreement or the School's contract with the Ohio State Board of Education to operate the School and WHLS does not cure the material breach within 60 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 60 days, in which case the WHLS shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

Termination by WHLS. WHLS may, at its option, terminate the Agreement upon the occurrence of certain events as defined in the Agreement.

**10. DEBT FORGIVENESS**

In addition to the change in Management Agreement (See Note 9), WHLS funded any working capital deficits of the School that existed at June 30, 2002, with no obligation for repayment.

This transaction totaled \$277,809 and is referred to as "Debt Forgiveness" on the School's "Statement of Revenues, Expenses, and Changes in Retained Earnings".

**11. 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 9)

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM**

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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the years ended June 30, 2003, 2002, and 2001 were \$45,048, \$30,883, and \$65,152; 100 percent has been contributed for fiscal years 2003, 2002, and 2001.

**B. STATE TEACHERS RETIREMENT SYSTEM**

WHLS, on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), 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 that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**B. STATE TEACHERS RETIREMENT SYSTEM (Continued)**

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 contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Combined Plan offers features of both the DB Plan and the DC Plan. 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service that 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.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**B. STATE TEACHERS RETIREMENT SYSTEM (Continued)**

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 School's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$122,258, \$79,474, and \$80,143; 100 percent has been contributed for fiscal years 2003, 2002, and 2001.

**12. POSTEMPLOYMENT BENEFITS**

WHLS, on behalf of the School, provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the State Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$9,404 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2003, employer contributions to fund health care benefits were 5.83 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 member's pay, pro-rated for partial credit. For fiscal year 2003, the minimum pay was established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million.

At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled \$35,527 during the 2003 fiscal year.

**13. CONTINGENCIES**

**A. Grants**

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

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**13. CONTINGENCIES (Continued)**

**B. Pending Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Hope Academy Chapelside Campus is not presently determinable.

**14. STATE SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	134197-LLP	10.555	\$116,488	\$116,488
School Breakfast Program	134197-05PU	10.553	<u>49,714</u>	<u>49,714</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>166,202</u>	<u>166,202</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	134197-6BSF-2003	84.027	25,615	25,615
Improving Teacher Quality State Grants	134197-TRS1-2003	84.367	98,609	60,451
Education Technology State Grants	134197-TJS1	84.318	5,648	9,168
Title I Grants to Local Educational Agencies	134197-C1S1	84.010	296,419	296,419
Innovative Education Program Strategies	134197-C2S1-2003	84.298	3,356	38,213
Safe and Drug-Free Schools and Communities State Grants	134197-DRS1-2003	84.186	<u>2,177</u>	<u>2,443</u>
Total U.S. Department of Education			<u>431,824</u>	<u>432,309</u>
<b>Totals</b>			<b><u>\$598,026</u></b>	<b><u>\$598,511</u></b>

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

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the School's federal award programs. The Schedule has been prepared on the 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 – TRANSFERABILITY OF FEDERAL FUNDS**

During 2003, the School made the following reallocations from original budgeted federal programs to other federal programs approved by the Ohio Department of Education:

<u>Fund</u>	<u>CFDA Number</u>	<u>Reallocations</u>
Improving Teacher Quality State Grants	84.367	(\$40,000)
Educational Technology State Grants	84.318	5,000
Innovative Educational Program Strategies	84.298	<u>35,000</u>
Total		<u><u>\$0</u></u>

The Schedule reports the reallocated expenditures in the receiving program ultimately authorized to receive and disburse the monies.





**Auditor of State  
Betty Montgomery**

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

Hope Academy Chapelside Campus  
Cuyahoga County  
3845 East 131 Street  
Cleveland, Ohio 44120

To the Board of Trustees:

We have audited the financial statements of Hope Academy Chapelside Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

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

However, we noted a matter involving internal control over financial reporting that does not require inclusion in this report, that we have reported to management in a separate letter dated March 31, 2004.

Hope Academy Chapelside Campus  
Cuyahoga County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

March 31, 2004



## Auditor of State Betty Montgomery

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

Hope Academy Chapelside Campus  
Cuyahoga County  
3845 East 131 Street  
Cleveland, Ohio 44120

To the Board of Trustees:

#### Compliance

We have audited the compliance of the Hope Academy Chapelside Campus, Cuyahoga County, Ohio, (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2003-001.

#### Internal Control Over Compliance

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

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We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings as item 2003-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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



**Betty Montgomery**  
Auditor of State

March 31, 2004

**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
JUNE 30, 2003**

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

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

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

None.

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

**Equipment and Real Property Management**

<b>Finding Number</b>	<b>2003-001</b>
<b>CFDA Title and Number</b>	<b>Title I Grants to Local Education Agencies, CFDA#84.010</b>
<b>Federal Award Number/Year</b>	<b>CFDA#84.010/2003</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

<b>Finding Number</b>	<b>2003-001 (Continued)</b>
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**Noncompliance**

34 CFR Section 74.34 provides, in part, that detailed equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

The School does not maintain a complete Master Fixed Asset Listing which documents the fixed asset tag identification number, cost, acquisition date, location or the type/category of assets for furniture and fixtures, equipment, computers and software, textbooks, and the facility improvements. The School did not perform a physical inventory of the fixed assets during the fiscal year. Failure to maintain accurate records or employ adequate controls over the acquisition, location, use and disposal of fixed assets could result in misappropriation of assets and potential misstatement of fixed asset amounts in the financial statements. In addition, failure to abide by federal requirements may subject the School to possible liability and/or loss of funding for federal programs.

To maintain safeguards over fixed assets, and to reduce the risk that fixed assets will be misstated in the financial statements, the School should establish an updated listing of all fixed assets and develop and implement appropriate procedures to be performed throughout the year. These procedures may include, but are not limited to, the following:

- Tagging all assets meeting the capitalization criteria and recording the fixed asset tag number upon receipt of the asset,
- Utilizing asset, addition, disposal, and transfer forms to be completed by an employee and approved by management when assets are acquired or disposed, and
- Recording the tag number, description of the asset, cost, acquisition date, location and reference to supporting documentation (i.e. an invoice) within the Master Fixed Asset Listing.

In addition, management of the School should perform periodic physical inventories for all classes of fixed assets. The physical inventory should be performed by someone other than the individual responsible for the assets. The assets should be reconciled to the Master Fixed Asset Listing ensuring the completeness and accuracy of the Listing. Discrepancies between the Listing and the physical inventory should be investigated. The School has \$148,461 of assets purchased with federal monies. Implementing these procedures will help ensure that the School meets grant requirements in future years, as well as protecting the School's assets. The School began maintaining a complete Master Fixed Asset Listing and tagging all assets in fiscal year 2004.

**Federal Program Internal Control Procedures**

<b>Finding Number</b>	<b>2003-002</b>
<b>CFDA Title and Number</b>	<b>Title I Grants to Local Educational Agencies, CFDA#84.010</b>
<b>Federal Award Number/Year</b>	<b>CFDA#84.010/2003</b>
<b>Federal Agency</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Education</b>

**Reportable Condition**

The School contracts with WHLS to administer all of its federal grants. WHLS maintains record of all federal receipts and expenditures for the Title I program on a form referred to as the Supplemental Funding Recap Sheet (Recap Sheet). The Recap Sheet was used by WHLS to monitor grant activity during the year and also for purposes of creating a billing to the School for expenditures incurred by WHLS in the administration of the Title I program. Although the School was able to demonstrate overall compliance with program requirements, we did note that the Recap Sheet failed to completely detail all of the expenditures that made up the amounts presented on this document.

In support of the Recap Sheet, WHLS maintains a check listing for all non-payroll related Title I expenditures. During the audit, we noted that the check listing was incomplete and did not always agree with the Recap Sheet. We also encountered instances where the check number on the check listing did not correspond to the check number issued. Additionally, some amounts listed on the check listing did not have a corresponding check numbers or provide a description of the expenditure. Finally, the check listing did not indicate which budget line item the expenditure was assigned to on the Recap Sheet making it difficult to reconcile the check listing to the Recap Sheet.

We also noted during the year that some Title I funds were budgeted for salaries and professional development. For salaries, the Recap Sheet listed each employee whose salary was designated as Title I. However, employee records did not always reflect the employee's designation as a Title I employee making it difficult to determine the reasonableness of that designation. For professional development, WHLS maintained a separate listing of employees whose salaries were allocated to professional development based on the employee's level of service to the School. Although WHLS was able to show the basis for the professional development allocation, WHLS did not maintain the proper documentation (such as time sheets) to adequately support the allocation of charges to Title I for professional development.

While the program is compliant, the School should require WHLS to improve its efforts to document and support items presented on the Recap Sheet. Enhancements in these areas will help to ensure all Title I expenditures or any other federal expenditures are accurately accounted for and properly documented in support of all federal program requirements and agreements. Failure of the School to ensure compliance with federal grant requirements could result in a future loss of funding.

HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b></u>
2002-001	Internal Control Systems	Yes	Finding no longer valid. The School entered into a Management Agreement with WHLS to manage the School's operations.



**HOPE ACADEMY CHAPELSIDE CAMPUS  
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The School will tag all assets and also properly identify those purchased with Federal funds. The School's master asset listing will also be brought up-to-date.	June 2004	Dave Massa, Fiscal Officer
2003-002	WHLS, the manager for the School, has hired an individual with strong bookkeeping skills to track all grant expenditures. Additionally, WHLS will conduct an internal audit of all grant expenditures prior to year end to ensure that all charges are properly documented and supported.	June 2004	Dave Massa, Fiscal Officer





**Auditor of State  
Betty Montgomery**

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**HOPE ACADEMY CHAPELSIDE CAMPUS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 22, 2004**