

Mary Taylor, CPA
Auditor of State

HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	1
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	3
Federal Awards Revenues and Expenses Schedule.....	5
Notes to the Federal Awards Revenues and Expenses Schedule	6
Schedule of Findings.....	7

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Directors:

We have audited the financial statements of the HOPE Academy Chapelside Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2006 and have issued our report thereon dated May 31, 2007. 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 the Comptroller General of the United States *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2006-007 and 2006-008.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated May 31, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 through 2006-006. In a separate letter to the School's management dated May 31, 2007, we reported other matters related to noncompliance we deemed immaterial.

The School's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 31, 2007



Mary Taylor, CPA

Auditor of State

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 131st Street
Cleveland, Ohio 44120

To the Board of Directors:

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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying Schedule of Findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the HOPE Academy Chapelside Campus complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The School's management 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 directly and materially affect a major federal program 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School's management in a separate letter dated May 31, 2007.

Federal Awards Revenues and Expenses Schedule

We have audited the financial statements of the School as of and for the year ended June 30, 2006, and have issued our report thereon dated May 31, 2007. Our audit was performed to form an opinion on the basic financial statements. The accompanying Federal Awards Revenues and Expenses Schedule provides additional information as required by OMB Circular A-133 and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 31, 2007

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Revenues	Expenses
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
National School Lunch Program	133850-LLP	10.555	\$120,052	\$120,052
School Breakfast Program	133850-06PU	10.553	41,604	41,604
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>161,656</u>	<u>161,656</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Special Education Grants to States (IDEA Part B)	133850-6BSF-2006	84.027	123,825	123,825
Improving Teacher Quality State Grants	133850-TRS1-2006	84.367	33,809	33,809
Education Technology State Grants	133850-TJS1-2006	84.318	10,168	6,532
Grants to Local Educational Agencies (ESEA Title 1)	133850-C1S1-2006	84.010	328,372	317,003
Innovative Educational Program Strategies	133850-C2S1-2006	84.298	33,856	33,856
Safe and Drug-Free Schools and Communities State Grants	133850-DRS1-2006	84.186	9,971	7,283
Total U.S. Department of Education			<u>540,001</u>	<u>522,308</u>
Total			<u><u>\$701,657</u></u>	<u><u>\$683,964</u></u>

The accompanying notes are an integral part of this schedule.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Revenues and Expenses Schedule (the Schedule) summarizes activity of the School's federal award programs. The 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.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

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 reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance or other matters at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions 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 § .510?	No
(d)(1)(vii)	Major Programs (list):	Grants to Local Educational Agencies (ESEA Title1): CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 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**

FINDING NUMBER 2006-001

Finding for Recovery Repaid Under Audit – Credit Cards

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The Board’s Credit Card Policy states “upon receipt of original itemized documentation, credit card expenditures will be paid through the Board of Director’s bank account.” It further provides that “failure to submit an original itemized receipt for any purchase made on the Board credit card shall result in rejection of payment for any and all charges not properly documented. The Board Member for said purchase will then be held responsible for the incurred charges.” Further, the policy provides that “the Board of Directors and the Fiscal Officer are responsible for the supervision, distribution, use, and documentation of the credit card.

The following improper charges were noted with respect to credit card expenses:

- A. A check for \$149.70 was issued to Robert Townsend, Board President, by National City Bank for a credit balance on a Board-issued credit card and subsequently cashed by Mr. Townsend. This amount, which was allocated proportionally across 19 schools (Mr. Townsend serves as Board President for 19 community schools) by the Fiscal Officer, amounting to \$7.88 per school, was not returned during the audit period by Mr. Townsend.
- B. Contrary to Auditor of State Bulletin 2003-005 and Ohio Attorney General Opinion 82-006 there was no Board approval for the following expenses:
 - A credit card purchase totaling \$110 was made for two tickets to the Cleveland Zoo’s Twilight at the Zoo and allocated proportionally across 18 schools, amounting to \$6.11 per school, for which no business purpose was provided by Mr. Townsend.
 - Registration fees totaling \$850 were paid in order for Mr. Townsend and a guest to attend the National League of Cities 2005 National Summit on Your City’s Families and allocated proportionally across 18 schools, amounting to \$47.22 per school, for which no business purpose was provided by Mr. Townsend, nor was a reason provided to substantiate the payment of expenses for a non-Board member.
 - Registration fees totaling \$825 were paid for Mr. Townsend’s attendance at the National Black Mayor’s Conference and allocated proportionally across nine schools, amounting to \$91.67 per school, for which no business purpose was provided by Mr. Townsend.
- C. Contrary to the School’s credit card policy, Mr. Townsend made an unsubstantiated credit card purchase totaling \$26.62 at Corky & Lenny’s on January 9, 2006. This amount was allocated proportionally across 18 schools, amounting to \$1.48 per school.

FINDING NUMBER 2006-001 (Continued)

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Robert Townsend in the proportionally-allocated amount of \$154.36, and in favor of HOPE Academy Chapelside Campus. The \$154.36 was repaid under audit by Mr. Townsend to HOPE Academy Chapelside Campus on February 27, 2007.

Officials' Response: Total errors in calculation for this finding were \$154.36. All purchases and events by Mr. Townsend involved board related business and discussion with educators and supporters of charter school education. However, Internal Controls are being developed to ensure that even minimal costs are reviewed with high scrutiny to ensure that public purpose of the expenditure is clear prior to the expenditure being made.

FINDING NUMBER 2006-002

Finding for Recovery Repaid Under Audit – Stipends

According to the minutes, Board members are to be paid \$125 per meeting. The Board minutes indicated Ted Pappas, Jr., Board Member, was in attendance for ten Board Meetings during the audit period resulting in earnings totaling \$1,250. However, according to the School financial records, he was paid a total of \$1,750 for these meetings resulting in an overpayment of \$500.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Ted Pappas, Jr. and in favor of HOPE Academy Chapelside Campus in the amount of \$500. The \$500 was repaid under audit by Mr. Hanes on behalf of Mr. Pappas to HOPE Academy Chapelside Campus on April 17, 2007.

Officials' Response: Total errors in calculation for this finding were \$500. As the Board meets on a regular and consistent basis, in rare cases stipend payments are issued to a member systematically, Internal controls are being developed to ensure that each stipend payments is reviewed prior to payment to a member. However, all amounts are de minimus electronic errors which are always repaid.

FINDING NUMBER 2006-003

Finding for Recovery Repaid Under Audit - Stipends

According to the minutes, Board members are to be paid \$125 per meeting. The Board minutes indicated Charlotte Ivey, Board Member, was in attendance for five Board Meetings during the audit period resulting in earnings totaling \$625. However, according to the School financial records, she was paid a total of \$750 for these meetings resulting in an overpayment of \$125.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Charlotte Ivey and in favor of HOPE Academy Chapelside Campus in the amount of \$125. The \$125 was repaid under audit by Ms. Ivey to HOPE Academy Chapelside Campus on April 13, 2007.

Officials' Response: Total errors in calculation for this finding were \$500. As the Board meets on a regular and consistent basis, in rare cases stipend payments are issued to a member systematically, Internal controls are being developed to ensure that each stipend payments is reviewed prior to payment to a member.

FINDING NUMBER 2006-004

Finding for Recovery Repaid Under Audit - Stipends

According to the minutes, Board members are to be paid \$125 per meeting. The Board minutes indicated Kurt Minson, Board Member, was in attendance for five Board Meetings during the audit period resulting in earnings totaling \$625. However, according to the School financial records, he was paid a total of \$750 for these meetings resulting in an overpayment of \$125.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Kurt Minson and in favor of HOPE Academy Chapelside Campus in the amount of \$125. The \$125 was repaid under audit by Mr. Minson to HOPE Academy Chapelside Campus on April 13, 2007.

Officials' Response: Total errors in calculation for this finding were \$125. As the Board meets on a regular and consistent basis, in rare cases stipend payments are issued to a member systematically, Internal controls are being developed to ensure that each stipend payments is reviewed prior to payment to a member.

FINDING NUMBER 2006-005

Noncompliance - Credit Card Expenses

The Board's Credit Card Policy states "upon receipt of original itemized documentation, credit card expenditures will be paid through the Board of Director's bank account." It further provides that "failure to submit an original itemized receipt for any purchase made on the Board credit card shall result in rejection of payment for any and all charges not properly documented. The Board Member for said purchase will then be held responsible for the incurred charges." Further, the policy provides that "the Board of Directors and the Fiscal Officer are responsible for the supervision, distribution, use, and documentation of the credit card.

Contrary to the School's credit card policy:

- An unsubstantiated credit card purchase totaling \$18.70 at Coronado Foods was made by a Board member and allocated proportionally across 9 schools, amounting to \$2.07 per school.
- An unsubstantiated credit card purchase totaling \$25 at Delta Air was made by a Board member and allocated proportionally across 9 schools, amounting to \$2.78 per school.
- An unsubstantiated credit card purchase totaling \$130.60 at Ken Stewarts Lodge was made by a Board member and allocated proportionally across 6 schools, amounting to \$21.76 per school.

One of the Board members voluntarily repaid the amounts under audit attributable to him for the purchases at Coronado Foods and Delta Air of \$4.85 to each respective School on February 27, 2007.

In order to further correct these deficiencies, the Fiscal Officer and all Board members should review the School's credit card policy to ensure all requirements are adhered to including proper documentation requirements and review of documentation prior to payment of the charges. Additionally, the Fiscal Officer and all Board members should review Auditor of State Bulletin 2003-005 and Ohio Attorney General Opinion 82-006 to ensure all expenses clearly meet the definition of proper public purpose.

Officials' Response: Total errors in calculation for this finding were \$26.61. This expense was incurred during a board members travel on verified and official board business. However, receipts were misplaced. Internal controls have been put in place to ensure that proper documentation requirements and review of documentation prior to payment of the charges are adhered to.

FINDING NUMBER 2006-006

Other Matters

Government Auditing Standards

Government Auditing Standards, Paragraph 5.17 requires disclosure when auditors conclude that significant abuse has occurred or is likely to have occurred. *Government Auditing Standards*, Paragraph 4.19 describes abuse as behavior where:

“No law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.”

The School is one of 19 community schools managed by the same management company. Some board members of the School also serve on the boards of other schools managed by the same management company.

17 of these 19 common school boards resolved to compensate board members \$125 per board meeting. Due to their similar membership, board meetings of multiple schools were often held on the same date and at the same time. As a result, some board members were paid at a minimum of \$250 (2 schools served X \$125) to a maximum of \$2,125 (17 schools served X \$125) for attending one board meeting.

We question whether a prudent person would consider paying a board member multiple times for attending one meeting as a reasonable practice.

Officials' Response: Board compensation has not been characterized in its full context. During the fiscal years 2005 and 2006, the management company hired by the boards of 19 common charter schools including this school, had a significant downsizing and restructuring which resulted in several changes in the company's upper level management, numerous employee changes, downsizing of management staff and constant reductions of school staff employees. In short there was a significant loss of service from the management company hired by the boards to operate these various 19 charter schools. It was readily admitted by the management company that problems had occurred within its internal operations. In order to ensure that each school ran efficiently, certain board members began supplementing management services to the school. Due to the amount of time involved, particular board members entered into Independent Contracts with the various 19 school boards to provide additional services to the schools above and beyond mere board governance tasks. Unfortunately, legislation nullified such independent contracts for these board members performing personal services in Ohio charter schools. As a result, board meetings and committee meetings became the only legal avenue for board members to accomplish necessary and additional tasks for the schools. Due to the apparent crisis within the management company, a majority of board members performed work hours ranging between 15 to 50 hours per week, including weekends to assist with service to the schools. Schools were increasingly checked by board members for custodial concerns; individual board members attended numerous meetings with disgruntled employees and teaching staff employed by the management company; and, Board members personally supplemented management services for the timely reconciliation and accurate reporting to each board of Federal and State aid monies expensed by the management company. Board members spent an enormous amount of time reviewing documentation related to the management company's internal operations, its downsizing and comparing the correlation between fees paid to management, grant reconciliation, and the actual services rendered by management to each school. Additional vendors had to be located, interviewed and hired by each board to cover services that the management normally performed. It is conceded that the payment of board stipends were authorized often at one meeting for multiple schools.

FINDING NUMBER 2006-006 (Continued)

Officials' Response: (continued) However, stipend payments reflected the overall compensation for significant hours of participation by each board member on a monthly basis-not simply one meeting. During this time period, members did not take stipends for each committee meeting as legally there were entitled to. Since there were a very large number of committee meetings to supplement management services, the payment of stipends for all committee meetings attended by board members in the years 2005-2006 would have resulted in enormous stipend expense for each school. For this reason, board members actually limited their stipends by issuing them, in most instances, at regular and special meetings of the board, regardless of the number of committee meetings held. Thus, one stipend payment for each board member, per school entity, was issued generally at special and regular meetings for each separate board. This stipend took into consideration the numerous committee meetings and individual hours of performance by each member, for each separate entity. Thus, the action of authorizing multiple stipend payments at one meeting for 17 or 19 schools, as opposed to 17 or 19 separate meetings, ensured limited stipend expenses, consistent financial accounting of stipends payments and unified decision making for 19 commonly managed schools. Moreover, effective time management was accomplished by board members in holding one meeting to discuss common issues with management concerning all 19 schools as opposed to discussing the same issues and similar concerns 17 or 19 different times. Therefore, when fully considered in its full context, and, given the facts and circumstances surrounding each individual schools management crisis- board members were compensated reasonably for necessary business practices and services rendered for each separate school entity.

Notwithstanding the board's response, the Board has taken action to develop internal controls to ensure that the schools can be operated in the event that the management company fails provide necessary services to its multiple managed schools. In 2005, the Board hired its own fiscal officer for increased control over the flow of school funding and alleviated the use of managements company's fiscal officer. The Board now requires increased detail in expenditure reports by management and increased board resolution and consent prior to management decisions. The Board also places greater reliance on contractual remedies at law to resolve management concerns. Further, the Board has reduced management fees to cover overall deficiencies or shortcomings with service as the management company continues to downsize hired staff. Recently, the Board reserved fees from the management company to pay for building security when it was significantly reduced by the company at each school to the detriment of the students. By identifying alternate providers and staying abreast of the constant internal changes with the management company, the multiple Board and the schools so governed are now equipped to immediately outsource service providers without having board members personally perform an exorbitant amount of management related oversight.

Auditor of State's Conclusion: There was no documentation to support that the Board Members provided the services described above beyond their attendance at the meetings.

FINDING NUMBER 2006-007

Reportable Condition - Bookkeeping Errors/Adjustments

Throughout the audit, the following deficiencies were noted with respect to the accounting records:

- Although bank reconciliations were performed on each account, no reconciliation was performed to encompass the entire school.
- The accounting system was not properly closed at year end, which allowed system reports to reflect changes made subsequent to year end, such as the voiding of checks.
- GAAP schedules and/or workpapers were not complete
- Checks were not always written in sequential order.
- Voided checks were not always maintained.
- Similar expenses were not always consistently charged to the same line items.
- Expenses were improperly allocated to schools for which the expense did not apply.
- Supporting documentation was not always maintained for all expenses.

FINDING NUMBER 2006-007 (Continued)

- Depreciation of Capital Assets was not properly calculated due to incorrect service dates and/or useful lives that were not in accordance with Board policy.
- Expense Reimbursement Forms and Request for Travel Forms were not provided for all expenses in which they apply.
- Accounting errors resulting in various receivables and/or payables were not corrected in a timely manner.
- Although the Fiscal Officer was generally able to provide immediate explanations, repeated requests were required in order to obtain sufficient supporting documentation.

In order to correct these deficiencies, the Fiscal Officer should:

- Include investments on the reconciliation so the School's cash balance reconciles to the School's book balance.
- Perform month end and year end closing procedures as prescribed by the accounting system software to ensure the integrity of activity performed during the period and achieve proper period cut-off.
- Ensure all GAAP schedules are complete and tie to the trials.
- Write all checks in sequential order.
- Properly deface and maintain all voided checks for inspection under audit.
- Establish guidelines to ensure all similar expenses are uniformly charged to the same line item.
- Allocate expenses only across schools who received a benefit.
- Maintain supporting documentation for all transactions.
- Ensure depreciation is accurately calculated.
- Maintain all Board policy required forms.
- Ensure all receivables and/or payables resulting from accounting errors are resolved in a timely manner.
- Ensure the existence of a clear audit trail supported by proper documentation for all transactions.

Officials' Response:

Account reconciliations-All bank accounts are reconciled within QuickBooks. The system requires that each bank account be reconciled separately. The system then generates financial statements that reconcile all cash accounts. Thus, the accounting system has already performed this function.

GAAP Schedules and Work papers-The current fiscal officer maintains that GAAP schedules and work papers were prepared appropriately. The current fiscal officer disagrees with the AOS to discuss relative to the accruals of federal revenues, expenses, and their related receivables and payables, as well as the need to breakout small dollar items who's amounts are immaterial to the financial statements.

Netting of State Funding and Continuing Fees Payable and Receivable-The Fiscal Officer contends that netting of payables and receivables is an acceptable practice under generally accepted accounting principles. As such, this error is immaterial as a matter of course.

Sequential checks-The QuickBooks accounting software has a feature called missing checks that allows for every check to be accounted for regardless of date written. Because the fiscal officer had to travel to the school and pay bills on site, some schools checks may have been out of sequence. It does not make sense to void a check that was not used on a particular date when the accounting system accounts for it.

Voided Checks-The majority of voided checks were lost in the mail. Others were destroyed during printing. As such, it is not possible to keep a copy of the actual voided check in these instances.

FINDING NUMBER 2006-007 (Continued)

Officials' Response:

Similar Expenses not coded consistently-Each school is its own separate school district and legal entity. As such, the fiscal officer may determine that coding for one school does not make sense for a similar school based upon individual circumstances. However, similar coding where practicable will be used.

Allocation of expenses-For certain low dollar expenses shared among 19 schools, the fiscal officer felt that writing small checks (i.e. \$2, 5, \$10, etc. 19 times) to allocate out payments was immaterial as a matter of course.

Supporting documentation- Due to the decentralization of management, physical documents are now generated from a variety of custodians such as the management company, board counsel, board secretary and board fiscal officer. Further, the fiscal officer maintains files in the office by vendor by date. However, the AOS prefers filing by date without regard to the vendor. The fiscal officer's staff works to rearrange its files in accordance with the AOS' preference, but some documents must be verified and re-arranged from other custodians causing delay in some instances in supporting documentation. The school is working to centralize its documentation at the Board office.

Depreciation-The predecessor accountant used a computerized fixed asset system for small items and a spreadsheet for large leasehold improvements. As a result, some schools schedules may not have tied out totally. As a result, a computerized fixed asset system will be used for all assets henceforth.

Expense Reimbursements-Expense reimbursement checks and credit card payments were all signed by an executive officer/board member, not the fiscal officer. All payments were reviewed as part of the financial report and approved by the Board. As such, the need for these forms is rendered moot since the Board member(s) (who would normally sign the reimbursement or travel form) instead, signed the check.

Accounting Errors not corrected in timely manner-The school contends that the errors identified are immaterial as a matter of course.

Auditor of State's Conclusion: The bullet points listed in the finding above represent conditions within the internal control structure identified during the audit of this school. While the Auditor of State relies on supporting documentation maintained by the client to determine the propriety of tested transactions, as well as, client-created system documentation to determine the accounting treatment employed in the creation of the entity's financial statements, the Auditor of State has no requirements regarding the filing methods and/or format in which this information is maintained. Rather the errors noted in this finding were the result of; system documentation that did not agree to the reported amounts, improper or inconsistent accounting treatment of transactions, and incomplete or missing supporting documentation of recorded transactions. In addition to any resulting quantitative differences, these errors had unfavorable qualitative impact and taken collectively, represent a significant reportable condition within internal control requiring disclosure in this report.

FINDING NUMBER 2006-008

Reportable Condition – Board Compensation

The following deficiencies were noted with respect to Board member compensation:

- For a portion of the year, certain Board members were paid in accordance with individual contracts; however, all contracts were not readily available for review.
- The Sponsor subsequently determined Board members should be paid by stipend and not by contract. Repayments of contract amounts occurred but were not always properly recorded.

FINDING NUMBER 2006-008 (Continued)

- Approval of stipends for attendance at committee meetings was not documented within the minutes and required the passage of a retroactive resolution by the Board.
- Appointment of Board members to various committees was not always documented within the minutes.
- Invoices were generated and payments were made in accordance with invoices; however, invoices did not always agree with attendance per the minutes.

Although alternative procedures were performed in the testing of stipends, in order to improve controls and help monitor compensation for Board members:

- Contracts should be maintained and available for review for all Board members.
- All transactions should be properly recorded in a timely manner.
- All payroll related actions should be approved by the Board and documented within the minutes.
- Appointments to committees should be documented within the minutes.
- Stipends should be paid based upon meeting attendance per Board resolution.

Officials' Response: The school contends that the errors identified are immaterial as a matter of course.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.

Comprehensive Annual Financial Report

For the Year Ended June 30, 2006



HOPEACADEMIES

There is HOPE
for every child

Hope Academy Chapelside Campus

Cleveland, Ohio

Hope Academy Chapelside Campus Cleveland, Ohio

Comprehensive Annual Financial Report For the Year Ended June 30, 2006

Prepared by Ohio Community School Consultants, Ltd. on behalf of the Board of Directors

HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

Title	Page
INTRODUCTORY SECTION	
Letter of Transmittal.....	i
Board of Directors.....	iv
Government Finance Officers Association Certificate	
FINANCIAL SECTION	
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
STATISTICAL TABLES	
Operating Expenses by Category - Last Eight Fiscal Years	23
Operating and Non-Operating Revenues - Last Eight Fiscal Years.....	24
Full Time Equivalent (FTE) Enrollment - Last Eight Fiscal Years	25
Grant Revenues by Source - Last Eight Fiscal Years	26
Net Assets - Last Eight Fiscal Years	27
State Basic Aid - Per Pupil Funding Amount - Last Eight Fiscal Years.....	28
Student Population by Resident District - 2006 Fiscal Year.....	29
Miscellaneous Statistics.....	30

This page intentionally left blank.

Introductory Section

This page intentionally left blank.



3845 East 131st Street
Cleveland, OH 44120

(216) 283-6589 (P)
(216) 283-3087 (F)

www.hope-academies.com

June 30, 2007

Hope Academy Chapelside Campus Community
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Hope Academy Chapelside Campus (the School) for the fiscal year ended June 30, 2006. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

Introductory Section The Introductory Section includes the Transmittal Letter, a list of our Board members and GFOA Certificate of Achievement.

Financial Section The Financial Section consists of the Independent Accountants' Report, Management's Discussion and Analysis, and the Basic Financial Statements as well as the Notes to the Basic Financial Statements that provide an overview of the School's financial position and operating results.

Statistical Section The Statistical Section includes selected financial and demographic information about the School on a multi-year basis.

The School's management is responsible for the reliability of the data presented and the completeness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School. All disclosures necessary to enable the reader to gain an understanding of the School's financial activities have been included.

Further, the School has established a comprehensive framework that is designed to compile sufficient reliable information for the preparation of its financial statements in accordance with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the School's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). The Auditor of State's Office rendered an opinion on the School's financial statements as of June 30, 2006 and the Independent Accountants' Report on the Basic Financial Statements is included in the Financial Section herein.

As required by GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion follows the Independent Accountants' Report and provides an assessment of the School's finances for fiscal year 2006 and the outlook for the future.

Profile of the Government

Ohio charter schools began operating after the passage of a 1997 State law. Charter schools, commonly referred to as “community schools” in Ohio, are public, non-profit, non-sectarian schools established to operate independently of any School District. These schools also are exempt from many of the education laws of the State allowing them to bring innovation and efficiency to the traditional education model. More importantly, the passage of this law made the concept of school choice a reality in Ohio. As required by law, each of these community schools must have a sponsor. Effective July 1, 2005, the School entered into a contract with a new sponsor, Ohio Council for Community Schools. Ohio Council for Community Schools provides oversight and advisory services to 46 community schools throughout the State serving nearly 17,000 children.

Hope Academy Chapelside campus is a grade school offering grades K-12. The school, which first opened its doors in August of 1998 is located in the City of Cleveland, Ohio and is run by an eight member Board of Directors. The School looks to its eight-year history of consistent enrollment as a measure of its success (see more at www.hope-academies.com). The School has contracted with HA Chapelside, LLC, a subsidiary of White Hat Management, LLC (the Company) to operate the School on a day-to-day basis. White Hat Management is a national leader in professional education management that serves nearly 18,000 students across multiple states. The Company has managed the School since its inception.

Economic Issues

Since the enactment of community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see Statistical Section for historical funding levels). Historically, the School has seen an increase in the base level per pupil funding amount (currently 2.2 percent for fiscal years 2007 and 2006). However, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities that they operate in. By comparison, the Cleveland City School District receives over \$12,000 in average per pupil funding from all sources whereas the School (which is also located in the City of Cleveland) receives only \$8,422 from all sources. These disparities in funding are in part, the reason why contracting with a professional educational management firm like White Hat Management was an attractive option. By managing multiple schools, the Company is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school. In November 2005, the School renewed its management agreement with White Hat and its affiliates. (See Note 9 for a full description of services provided by the Company.)

As discussed later, the School was funded on 465 full-time equivalent students for fiscal year 2006. As of the date of this letter, it is expected that the School will maintain that enrollment with the possibility of a slight decline consistent with declines seen in other Hope Academies throughout the State. Obviously, any decline in enrollment would have a direct corresponding impact to current year revenues.

As a result of legislative changes, management companies that operate schools in the State of Ohio are now required to provide more disclosure on how monies paid by the School to the company are spent. Auditor of State Bulletin No. 2004-009 provided the guidelines of how management companies are expected to comply with this new provision and Note 10 to the basic financial statements under the Financial Section includes the required information for fiscal year ended June 30, 2006.

Awards and Acknowledgements

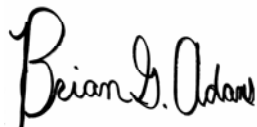
The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Hope Academy Chapelside for its CAFR for the year ended June 30, 2005. This was the second year that the School has received the award. The School was also acknowledged by the Ohio Department of Education as being one of the first community schools in the State to ever receive such an award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and effectively organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report, which is included herein, will conform to the high standards required by the Certificate of Achievement program.

The Comprehensive Annual Financial Report was prepared by the fiscal management team for the School. Their commitment to this process has helped to make this report possible. We would also like to thank Mr. Townsend and other members of the Board of Directors and Finance Committee for their support in this endeavor. It is truly appreciated.

Finally, we would like to thank our School community for entrusting us with the education of your children. You are the reason we are here. We are committed to bettering our students, their parents, and the communities we serve by providing the very best alternative in public education.

Sincerely,



Brian G. Adams MBA, CMA, CFM, CGFM
Fiscal Officer/Internal Auditor
Hope Academy Chapelside



Robert C. Townsend II
President, Board of Directors
Hope Academy Chapelside



James E. Haynes
Finance Committee Chairman
Hope Academy Chapelside

Hope Academy Chapelside Campus
Board of Directors
June 30, 2006

Robert C. Townsend II
James E. Haynes
James A. Stubbs
Edward D. Wilkins, Sr.
Ted Pappas, Jr.
Marco Sommerville
Charlotte Ivey
Kurt Minson

Board President
Board Vice President
Board Treasurer
Board Secretary
Board Member
Board Member
Board Member
Board Member

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Hope Academy
Chapelside Campus
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Judge

President

Jeffrey R. Emer

Executive Director

This page intentionally left blank.

Financial Section

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the HOPE Academy Chapelside Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2006, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 net assets of HOPE Academy Chapelside Campus, Cuyahoga County, Ohio, as of June 30, 2006, and the changes in its net assets 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 May 31, 2007, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the School's basic financial statements. The introductory and statistical sections provide additional information and are not a required part of the basic financial statements. We did not subject the introductory and statistical sections to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Mary Taylor, CPA
Auditor of State

May 31, 2007

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(Unaudited)**

The discussion and analysis of the Hope Academy Chapelside Campus' (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, 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

- In total, net assets increased \$14,342 which represents a 2.1 percent increase from 2005. The increase is the result of the increase in current assets.
- Total assets increased \$34,234, which represents a 3.7 percent increase from 2005. This was primarily due to an increase in receivables from the previous year.
- Liabilities increased \$19,892, which represents an 8.5 percent increase from 2005. The increase in liabilities is a direct result of the increase in State and Federal receivables, which directly increases liabilities owed as management fees.

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 2006. 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 CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(Unaudited)**

Table 1 provides a summary of the School's net assets for fiscal years 2006 and 2005.

(Table 1)
Net Assets

	2006	2005
Assets		
Current Assets	\$ 364,406	\$ 335,631
Capital Assets, Net	590,706	585,247
Total Assets	\$ 955,112	\$ 920,878
Liabilities		
Current Liabilities	\$ 254,332	\$ 234,440
Net Assets		
Investment in Capital Assets	\$ 590,706	\$ 585,247
Unrestricted	110,074	101,191
Total Net Assets	\$ 700,780	\$ 686,438

Total assets increased \$34,234. This was primarily due to an increase in receivables from the previous year. Liabilities increased \$19,892 from 2005. This increase directly corresponds to the increase in payables as the School operates under a management agreement with WHLS of Ohio, LLC (WHLS). Under the terms of the management agreement, WHLS is paid a specific percentage of the State and Federal revenues the School receives.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005, 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 CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(Unaudited)**

(Table 2)
Change in Net Assets

	2006	2005
<u>Operating Revenue</u>		
State Aid	\$ 3,210,039	\$ 3,527,655
<u>Non-Operating Revenues</u>		
Grants	695,579	753,094
Interest Income	8,666	3,790
Miscellaneous	1,791	-
Total Revenues	3,916,075	4,284,539
<u>Operating Expenses</u>		
Purchased Services: Management Fees	3,093,979	3,421,826
Purchased Services: Grant Programs	647,579	742,692
Sponsorship Fees	15,893	-
Legal	19,612	22,125
Auditing & Accounting	14,518	10,361
Insurance	6,625	2,552
Board of Education	13,010	18,876
Depreciation	87,697	82,380
Professional Services	1,729	6,458
Miscellaneous	1,091	-
Total Expenses	3,901,733	4,307,270
Change in Net Assets	\$ 14,342	\$ (22,731)

The primary reason for the decrease in overall revenues from 2005 was the decrease in students from 523 in fiscal year 2005 to 465 in fiscal year 2006. The School's most significant expenses, "Purchased Services" decreased as well because of the management agreement in place between the School and WHLS. As stated previously, the agreement provides that specific percentages of the revenues received by the School will be paid to WHLS to fund operations. (See Notes to the Basic Financial Statements, Note 9)

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 Trustees. The five-year projections are also submitted to the Sponsor and the Ohio Department of Education.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(Unaudited)**

Capital Assets

At the end of fiscal year 2006 the School had \$590,706, invested in Equipment and Leasehold Improvements, which represented an increase of \$5,549 from 2005. Table 3 below shows capital asset balances for fiscal year 2006 and fiscal year 2005.

(Table 3)

Capital Assets (Net of Depreciation)

	<u>2006</u>	<u>2005</u>
Equipment	\$ 87,135	\$ -
Leasehold Improvements	<u>503,571</u>	<u>585,247</u>
Totals	<u>\$ 590,706</u>	<u>\$ 585,247</u>

For more information on capital assets, see Note 7 in the Notes to the Basic Financial Statements.

Current Financial Issues

The Hope Academy Chapelside received revenue for 465 students in 2006 (a decrease from 2005 of 58) and continues to enroll students on a daily basis. 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 \$6,903 in fiscal year 2006 with a 2.2 percent increase in State Basic Aid planned in fiscal year 2007. 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 has not been incurred through the sponsorship by ODE. Ohio Council of Community Schools charged a half-percent of State Aid to be paid by the School for fiscal year 2006 and will charge the same for fiscal year 2007.

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 Chapelside, 7215 Sawmill Rd, Suite 050, Dublin, OH 43016 or e-mail at badams@ocscltd.com.

HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS

Current Assets

Cash and Cash Equivalents	\$124,036
Accounts Receivable	3,189
Grants Funding Receivable	182,343
Continuing Fees Receivable	54,734
Receivable from Schools	<u>104</u>

Total Current Assets 364,406

Noncurrent Assets

Depreciable Capital Assets, net	<u>590,706</u>
---------------------------------	----------------

Total Assets \$955,112

LIABILITIES

Current Liabilities

Accounts Payable	\$ 7,106
State Funding Payable	56,508
Grants Funding Payable	190,581
Payable to Schools	<u>137</u>

Total Liabilities \$254,332

NET ASSETS

Investment in Capital Assets	\$590,706
Unrestricted	<u>110,074</u>

Total Net Assets \$700,780

See accompanying notes to the basic financial statements

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

OPERATING REVENUE	
State Aid	<u>\$3,210,039</u>
OPERATING EXPENSES	
Purchased Services: Management Fees	3,093,979
Purchased Services: Grant Programs	647,579
Sponsorship Fees	15,893
Legal	19,612
Auditing and Accounting	14,518
Insurance	6,625
Board of Education	13,010
Depreciation	87,697
Professional Services	1,729
Miscellaneous	<u>1,091</u>
Total Operating Expenses	<u>3,901,733</u>
Operating Loss	(691,694)
NON-OPERATING REVENUES	
Grants	695,579
Interest Income	8,666
Other Non-Operating	<u>1,791</u>
Total Non-Operating Revenues	706,036
Change in Net Assets	<u>14,342</u>
Net Assets Beginning of Year	<u>686,438</u>
Net Assets End of Year	<u>\$ 700,780</u>

See accompanying notes to the basic financial statements

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$3,292,993
Cash Payments to Suppliers for Goods and Services	<u>(3,908,679)</u>
Net Cash Used For Operating Activities	(615,686)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital Expenses	(93,156)
------------------	----------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	683,463
Other Cash Received	<u>1,791</u>
Net Cash Provided by Noncapital Financing Activities	685,254

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	<u>8,666</u>
Net Decrease in Cash and Cash Equivalents	(14,922)

Cash and Cash Equivalents Beginning of Year	<u>138,958</u>
---	----------------

Cash and Cash Equivalents End of Year	<u>\$ 124,036</u>
---------------------------------------	-------------------

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED FOR OPERATING ACTIVITIES

Operating Loss	\$ (691,694)
----------------	--------------

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET

CASH USED FOR OPERATING ACTIVITIES

Depreciation	87,697
Changes in Assets and Liabilities:	
Accounts Receivable	(3,189)
State Funding Receivable	26,446
Continuing Fees Receivable	(54,734)
Receivable from Schools	(104)
Accounts Payable	5,289
State Funding Payable	56,508
Grants Funding Payable	(16,389)
Continuing Fees Payable	(25,653)
Payable to Schools	<u>137</u>

Net Cash Used For Operating Activities	<u>\$ (615,686)</u>
--	---------------------

See accompanying notes to the basic financial statements

This page intentionally left blank.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hope Academy Chapelside (the School) is a federal 501(c) (3) tax-exempt, 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 Chapelside, LLC, a Nevada limited liability company, for most of its functions. HA Chapelside, LLC is a single member entity of WHLS of Ohio, LLC, and is the entity which the School's board interacts with regarding day-to-day operations (see note 9 for details).

The School was originally 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 subsequently renewed for a two year period from July 1, 2004 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 a new sponsor, Ohio Council of Community Schools, to operate for a period from July 1, 2005 through June 30, 2010.

The School operates under a self-appointing, eight-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 includes, but is 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 465 students. The Board also operates Hope Academy Broadway Campus, Hope Academy Lincoln Park Campus, Hope Academy Cathedral Campus, Hope Academy High School, and the Life Skills Center of Cleveland in the City of Cleveland; and Life Skills Center of Akron, Hope Academy Brown Street Campus, and Hope Academy University Campus in the City of Akron.

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 below.

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 CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(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 2006. 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, 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 2006, 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, 2006.

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.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

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 2006 school year totaled \$ 3,905,618.

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 \$360,048. Depreciation is computed by the straight-line method over five years for "Equipment", five years for "Furniture and Fixtures", 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 9)

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.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all School deposits was \$62,591. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, none of the School's bank balance of \$70,321 was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. 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.

B. Investments

As of June 30, 2006, the School had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 12 months</u>
STAROhio	\$61,445	\$61,445	\$ -	\$ -

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.

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, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent to Total</u>
STAROhio	\$61,445	100.00

4. STATE FUNDING PAYABLE

The School has recognized on its Statement of Net Assets a "State Funding Payable" for the amount of State Aid directly related to FTE, estimated to be repaid by the School to the Ohio Department of Education (ODE) based on the difference in the amount the School actually received versus the amount earned through student FTE enrollment as determined at the end of the year. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2006, the amount of "State Funding Payable" was \$56,508.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

5. CONTINUING FEES RECEIVABLE

A "Continuing Fees Receivable" from WHLS has been recorded by the School in the amount of \$54,734 for 96 percent of the "State Funding Payable" due to the State for the FTE liability. (See Note 4)

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$182,343 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2006.

Additionally, under the terms of the management agreement (See Note 9), the School has recorded a liability to WHLS in the amount of \$190,581 for 100 percent of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2006.

7. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2006, the School's capital assets consisted of the following:

	Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>06/30/06</u>
Capital Assets Being Depreciated				
Furniture and Fixtures	\$ 19,686	\$ -	\$ -	\$ 19,686
Equipment	35,770	93,156	-	128,926
Leasehold Improvements	<u>802,142</u>	<u>-</u>	<u>-</u>	<u>802,142</u>
Total Assets Being Depreciated	<u>857,598</u>	<u>93,156</u>	<u>-</u>	<u>950,754</u>
 Less: Accumulated Depreciation				
Furniture and Fixtures	(19,686)	-	-	(19,686)
Equipment	(35,770)	(6,021)	-	(41,791)
Leasehold Improvements	<u>(216,895)</u>	<u>(81,676)</u>	<u>-</u>	<u>(298,571)</u>
Total Assets Being Depreciated	<u>(272,351)</u>	<u>(87,697)</u>	<u>-</u>	<u>(360,048)</u>
 Total Capital Assets Being Depreciated, Net	 <u>\$585,247</u>	 <u>\$ 5,459</u>	 <u>\$ -</u>	 <u>\$590,706</u>

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

8. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 November 1, 2005, the School entered into a multi-year Management Agreement (Agreement) with WHLS (through its subsidiary HA Chapelside, LLC) which is an educational consulting and management company. The Agreement's term runs through June 30, 2007 and will renew for additional one year terms ending on June 30, 2010 unless terminated for cause by either party. 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 operation. 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." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues to compensate the school for the education of its students shall be fully paid to the Company". 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 year ended June 30, 2006, to WHLS of \$3,741,558, receivables due of \$54,734, and payables to WHLS at June 30, 2006 aggregating \$190,581. WHLS will be 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.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

10. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2006, White Hat Ventures, LLC and its affiliates incurred the following expenses on behalf of the School.

	<u>2006</u>
Expenses	
Direct Expenses:	
Salaries & wages	\$ 1,547,193
Employees' benefits	397,318
Professional & technical services	297,500
Property services	347,186
Travel	29,389
Communications	21,712
Utilities	94,936
Books, periodicals, & films	54,434
Food & related supplies	160,851
Other supplies	200,714
Depreciation	111,156
Other direct costs	101,251
Indirect Expenses:	
Overhead	<u>415,874</u>
Total Expenses	<u>\$ 3,779,514</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.

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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(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, Suite 100, Columbus, Ohio 43215-3746 by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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 statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the years ended June 30, 2006, 2005, and 2004 was \$66,235, \$61,928, and \$56,263, respectively, of which 100 percent has been contributed.

B. State Teachers Retirement System

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 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at 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 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 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 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.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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.

For the fiscal year ended June 30, 2006, 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 2005, 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 School's required contribution for pension obligations to STRS for the years ended June 30, 2006, 2005, and 2004 was \$141,002, \$137,402, and \$131,973, respectively, of which 100 percent has been contributed.

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 of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School 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.

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$10,846 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the School paid \$30,886 to fund health care benefits, including the surcharge as WHLS has financial responsibility for these payments.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

13. 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

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the School is not presently determinable.

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. The conclusions of this review could result in state funding being adjusted. Adjustments as of June 30, 2006 are described in Note 4. However, in the opinion of the School, any future adjustments will not have a material adverse effect on the financial position of the School.

**HOPE ACADEMY CHAPELSIDE CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

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.

15. 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 percent of the State Aid. Total fees for fiscal 2006 were \$15,893. The contract is for five years ending June 30, 2010. The Sponsor is to provide oversight, monitoring and technical assistance for the School.

16. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

17. RECEIVABLES/PAYABLES FROM SCHOOLS

As described in note 1, this School has common board members with other Hope Academies and Life Skills Centers. These Board members typically have common costs that are to be shared between the schools. As of June 30, 2006, the School has \$104 due from other schools (receivable) and \$137 due to other schools (payable).

18. SUBSEQUENT EVENTS

During fiscal year 2007, the Ohio Legislature passed H.B 79 which modified certain provisions of the charter school statute. On March 28, 2007, the School initiated a lawsuit in Franklin County challenging the legality of certain provisions of H.B. 79. The effects of this lawsuit are presently not determinable.

Statistical Section

This page intentionally left blank.

Hope Academy Chapelside Campus
Operating Expenses by Category
Last Eight Fiscal Years

	Fiscal Year							
	2006	2005	2004	2003	2002	2001	2000	1999
Purchased Services:								
Management Fees	\$3,093,979	\$3,421,826	\$3,167,375	\$2,650,379	\$ -	\$ -	\$ -	\$ -
Purchased Services:								
Grant Programs:	\$ 647,579	\$ 742,692	\$ 736,206	\$ 594,784	\$1,060,719	\$ 826,398	\$ 700,309	\$ 627,727
Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$1,459,266	\$1,133,533	\$ 771,693	\$ 628,639
Fringe Benefits	\$ -	\$ -	\$ -	\$ -	\$ 317,827	\$ 244,092	\$ 198,048	\$ 139,984
Materials and Supplies	\$ -	\$ -	\$ -	\$ -	\$ 352,755	\$ 193,845	\$ 120,461	\$ 49,534
Sponsor Fees	\$ 15,893	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legal/ Professional	\$ 21,341	\$ 28,583	\$ 17,297	\$ 36,101	\$ -	\$ -	\$ -	\$ -
Insurance	\$ 6,625	\$ 2,552	\$ 6,656	\$ 12,833	\$ -	\$ -	\$ -	\$ -
Auditing & Accounting	\$ 14,518	\$ 10,361	\$ 11,659	\$ 1,985	\$ -	\$ -	\$ -	\$ -
Advertising	\$ -	\$ -	\$ -	\$ 3,466	\$ -	\$ -	\$ -	\$ -
Board of Education	\$ 13,010	\$ 18,876	\$ 10,754	\$ 4,055	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 87,697	\$ 82,380	\$ 129,054	\$ 166,546	\$ 111,708	\$ 25,168	\$ 136,571	\$ 78,262
Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,739	\$ 39,972	\$ 38,838
Miscellaneous	\$ 1,091	\$ -	\$ 2,793	\$ 59	\$ 8,035	\$ 33,511	\$ 10,852	\$ 2,656
Total	\$3,901,733	\$4,307,270	\$4,081,794	\$3,470,208	\$3,310,310	\$2,465,286	\$1,977,906	\$1,565,640
Enrollment	465	523	463	463	445	337	337	264
Per Pupil Expense	\$ 8,391	\$ 8,236	\$ 8,816	\$ 7,495	\$ 7,439	\$ 7,315	\$ 5,869	\$ 5,930

Note 1: In the initial years of operation, the school was responsible for funding the majority of its daily operations from State Aid. On July 1, 2002 (FY03), in an effort to improve the School's financial performance, the School signed a revised management with WHLS allowing for the daily operations to be run by the management company in exchange for a higher percentage management fee.

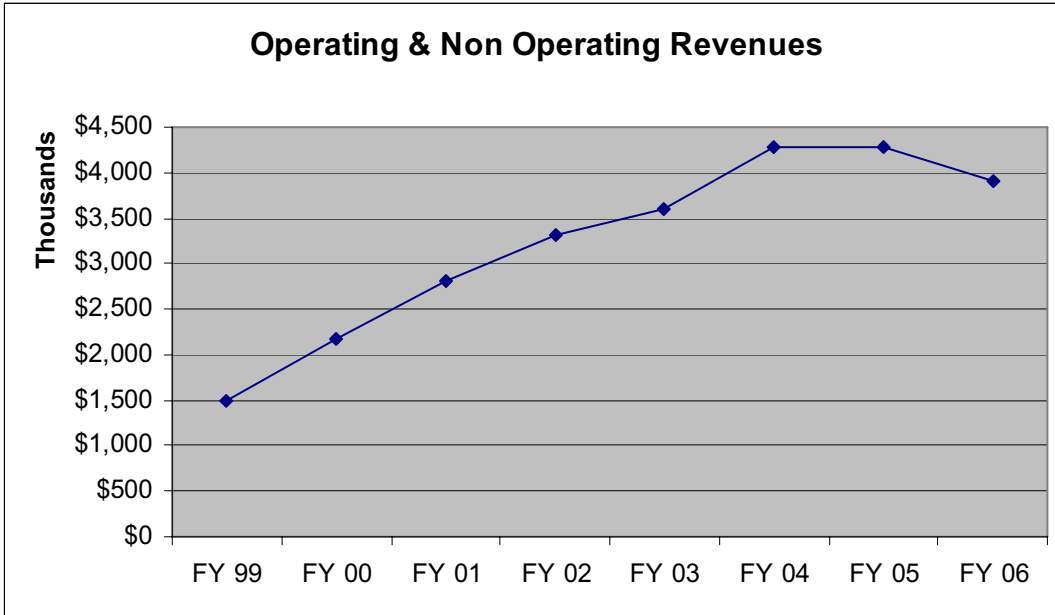
Note 2: The School began enrolling students in FY99.

Note 3: The sponsor may contract with the school to receive 3% or less of the amount the State pays to a school annually, solely for the costs of its oversight and monitoring activities.

Source: School Financial Records.

Hope Academy Chapelside Campus
Operating and Non-Operating Revenues
Last Eight Fiscal Years

Year	State Aid	Grants	Other	Total
2006	\$ 3,210,039	\$ 695,579	\$ 10,457	\$ 3,916,075
2005	\$ 3,527,655	\$ 753,094	\$ 3,790	\$ 4,284,539
2004	\$ 3,265,335	\$ 1,014,206	\$ 1,762	\$ 4,281,303
2003	\$ 2,729,884	\$ 594,784	\$ 279,026	\$ 3,603,694
2002	\$ 2,604,956	\$ 708,257	\$ 5,899	\$ 3,319,112
2001	\$ 2,260,754	\$ 541,016	\$ 7,250	\$ 2,809,020
2000	\$ 1,891,316	\$ 277,368	\$ 5,364	\$ 2,174,048
1999	\$ 1,223,423	\$ 184,307	\$ 79,320	\$ 1,487,050

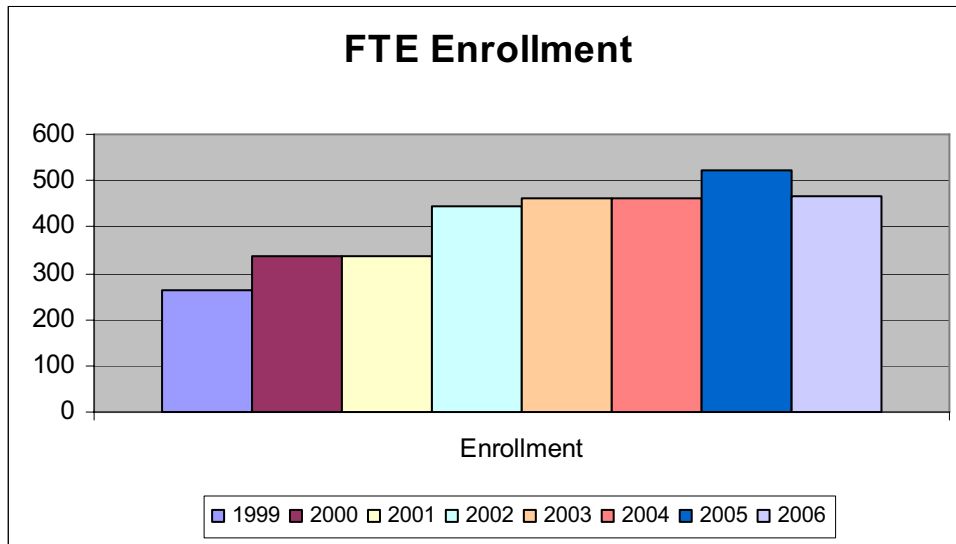


Note: The School began enrolling students in FY99.

Source: School Financial Records

Hope Academy Chapelside Campus
Full-Time Equivalent (FTE) Enrollment
Last Eight Fiscal Years

<u>Year</u>	<u>Enrollment</u>
2006	465
2005	523
2004	463
2003	463
2002	445
2001	337
2000	337
1999	264



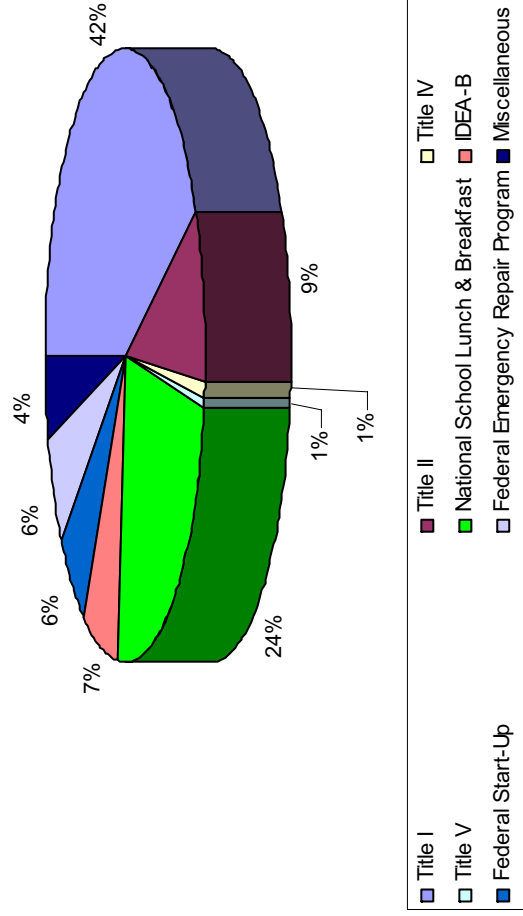
Note: The School began enrolling students in FY 99.

Source: School Financial Records

Hope Academy Chapelside Campus
Grant Revenues by Source
Last Eight Fiscal Years

Year	Title I	Title II	Title IV	Title V	National School Lunch & Breakfast	IDEA-B	Federal Start-Up	Federal Emergency Repair Program	Miscellaneous State Grants	Total
2006	\$296,268	\$71,226	\$7,773	\$1,641	\$ 175,241	\$123,825	\$ -	\$ -	\$ 19,605	\$ 695,579
2005	\$354,050	\$77,565	\$8,104	\$2,201	\$ 182,232	\$102,836	\$ -	\$ 10,400	\$ 15,706	\$ 753,094
2004	\$378,497	\$81,321	\$7,436	\$2,639	\$ 188,130	\$ 56,298	\$ -	\$278,000	\$ 21,885	\$1,014,206
2003	\$292,958	\$88,365	\$1,271	\$3,356	\$ 176,429	\$ 25,615	\$ -	\$ -	\$ 6,790	\$ 594,784
2002	\$194,769	\$52,957	\$3,970	\$3,353	\$ 154,966	\$ 16,666	\$ 234,000	\$ -	\$ 47,576	\$ 708,257
2001	\$215,956	\$37,387	\$4,029	\$2,956	\$ 133,030	\$ 1,118	\$ 50,000	\$ -	\$ 96,540	\$ 541,016
2000	\$156,403	\$26,844	\$2,901	\$5,514	\$ 84,732	\$ 974	\$ -	\$ -	\$ -	\$ 277,368
1999	\$123,009	\$ 3,754	\$1,365	\$4,528	\$ 51,651	\$ -	\$ -	\$ -	\$ -	\$ 184,307

Grant Revenues By Source All Years Combined



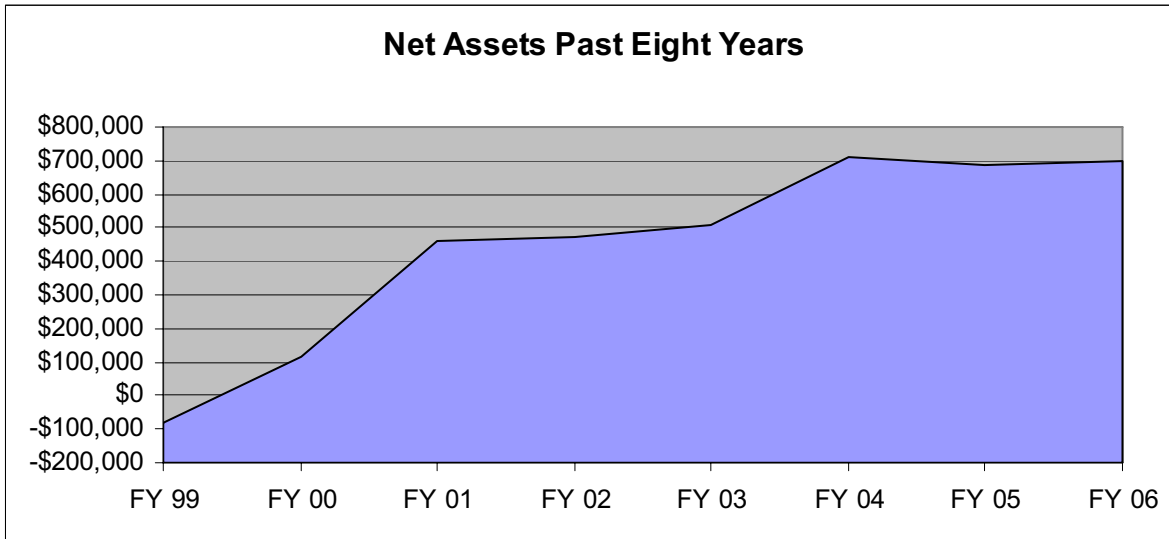
Note: The School began enrolling students in FY 99.

Source: School Financial Records

Hope Academy Chapelside Campus
Net Assets
Last Eight Fiscal Years

Year	Invested in Capital Assets	Restricted Net Assets	Unrestricted	Total	Change in Net Assets
2006	\$ 590,706	\$ -	\$ 110,074	\$ 700,780	\$ 14,342
2005	\$ 585,247	\$ -	\$ 101,191	\$ 686,438	\$ (22,731)
2004	\$ 549,104	\$ 22,503	\$ 137,562	\$ 709,169	\$ 199,509
2003	\$ 480,081	\$ -	\$ 29,579	\$ 509,660	\$ 133,486
2002	\$ 740,538	\$ -	\$ (270,450)	\$ 470,088	\$ 8,802
2001	\$ 427,169	\$ -	\$ 34,117	\$ 461,286	\$ 343,734
2000	\$ 407,209	\$ -	\$ (289,657)	\$ 117,552	\$ 196,142
1999	\$ 462,260	\$ -	\$ (540,850)	\$ (78,590)	\$ (78,590)

See Note 3



Note 1: On July 1, 2002, the School signed a new management agreement with WHLS to run the operations of the School. This transaction also involved \$277,809 of debt forgiveness to the School which caused a significant increase in the School's Net Assets.

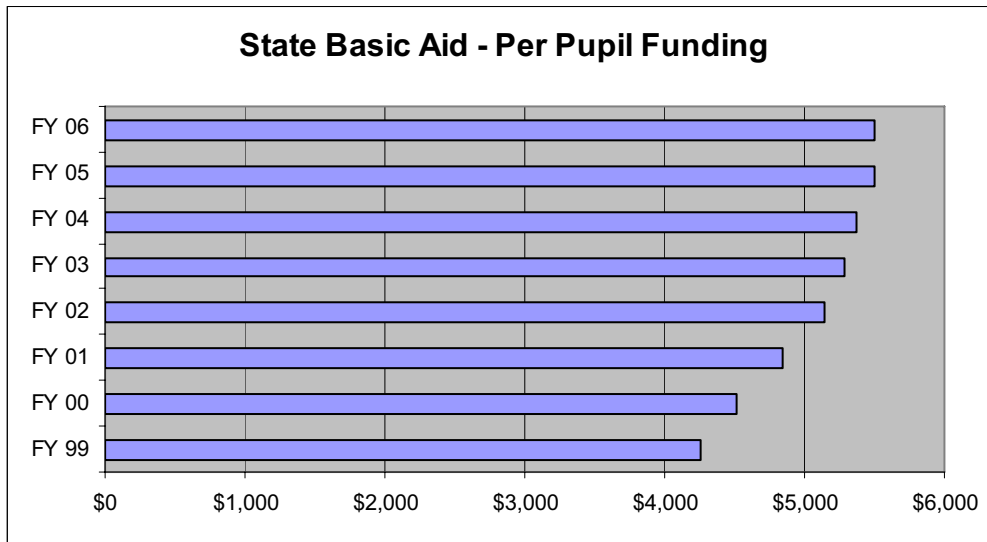
Note 2: The School began enrolling students in FY 99.

Note 3: FY03 Net Assets were restated during FY04 as a result of a change in the School's capitalization threshold from \$1,000 to \$5,000.

Source: School Financial Records

Hope Academy Chapelside Campus
 State Basic Aid – Per Pupil Funding Amount
 Last Eight Fiscal Years

Year	Per Pupil Funding	Cost of Doing Business	Total Per Pupil
2006	\$ 5,283	1.0417	\$ 5,503
2005	\$ 5,169	1.0626	\$ 5,493
2004	\$ 5,058	1.0626	\$ 5,375
2003	\$ 4,949	1.0672	\$ 5,282
2002	\$ 4,814	1.0672	\$ 5,138
2001	\$ 4,294	1.1282	\$ 4,844
2000	\$ 4,052	1.1152	\$ 4,519
1999	\$ 3,851	1.1063	\$ 4,260



Note 1: In addition to the above, The School also receives other sources of State Aid including (but not limited to) Career Based Intervention Funding, Poverty Based Assistance, Parity Aid, and Special Education funding. The revenues have collectively been identified on the Statement of Revenues, Expenses, and Changes in Net Assets as “State Aid”.

Note 2: The School began enrolling students in FY 99.

Source: Ohio Department of Education

Hope Academy Chapelside Campus
Student Population by Resident District
2006 Fiscal Year

<u>Resident District</u>	<u>%</u>
Cleveland	94.40%
Maple Heights	1.95%
Warrensville	1.91%
All Other Districts	1.74%

Note 1: The school has open enrollment and draws its population from a large surrounding area. The traditional school district that the student resides in is referred to as the “Resident District”.

Districts representing less than 1 percent of the student population are combined under the heading “All other Districts”.

Source: Ohio Department of Education website.

Hope Academy Chapelside
Miscellaneous Statistics

School Address: 3845 East 131st Street
Cleveland, OH 44120

Square Footage: 51,039 sq. ft.

Date of Incorporation: 06/04/1998

**Number of FY 06
Instructional Staff:** 27

Total FY 06 Staff: 52

} **Note: All Staff are employees of WHLS of
Ohio, LLC. See Note 9 in Notes
to the Basic Financial Statements.**

**Student/Instructional
Staff Ratio:** 16:1

**Percent of
Free/Reduced Lunch:** 81.74%

Source: School Records



Mary Taylor, CPA
Auditor of State

**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
AUGUST 14, 2007**