



Mary Taylor, CPA
Auditor of State

HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2008	7
Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended June 30, 2008	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2008	9
Notes to the Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Hope Academy High School
Cuyahoga County
% Allison Perz, Ohio Council of Community Schools
3131 Executive Parkway, Suite 306
Toledo, Ohio 43606

To the Former Academy Sponsor:

We have audited the accompanying basic financial statements of the Hope Academy High School, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express our 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 financial position of the Hope Academy High School, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 17, the Academy formally ceased operations in June 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2009, on our consideration of the Academy'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.

Hope Academy High School
Cuyahoga County
Independent Accountants' Report

Management's 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.

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

March 3, 2009

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

The discussion and analysis of the Hope Academy High School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. 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

Key financial highlights for fiscal year 2008 are as follows:

- In total, net assets decreased \$287,970 which represents a 210 percent decrease from 2007. This decrease is due to the investment in capital assets during the fiscal year. (See Note 7).
- Total assets decreased \$357,527, which represents a 52.6 percent decrease from 2007. This was primarily due to a large number of capital assets being purchased during the fiscal year.
- Liabilities decreased \$69,557, which represents a 10.5 percent decrease from 2007. The decrease in liabilities is due to decreased payables to the State and former management company.

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 2008. 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 HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

Table 1 provides a summary of the School's net assets for fiscal year 2008.

(Table 1)
Statement of Net Assets

	2008	2007
Assets		
Current Assets	\$ 60,852	\$680,273
Non-Current Assets	\$ 22,222	-
Capital Assets, Net	\$ 239,672	-
Total Assets	\$ 322,746	\$680,273
Liabilities		
Current Liabilities	\$ 595,104	\$664,661
Net Assets		
Investment in Capital Assets	\$ 239,672	\$ -
Unrestricted	(512,030)	15,612
Total Net Assets	\$(272,358)	\$ 15,612

Total net assets decreased \$287,970. This decrease is due to capital assets purchased in fiscal year 2007 (See Note 7). Liabilities decreased \$69,557 in 2008. The decrease in liabilities is due to decreased State and Federal payables due the State and management company as a result of the former management company contract.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2008 and 2007, 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 HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

(Table 2)
Change in Net Assets

	2008	2007
Operating Revenues		
State Aid	\$1,655,624	\$1,861,018
School Fees	2,157	
Non-Operating Revenue		
Grants	122,119	406,757
Interest Income	8,621	8,151
Donations	37,670	
Miscellaneous Income	<u>309,403</u>	<u>104</u>
Total Revenues	<u>\$2,135,594</u>	<u>\$2,276,030</u>
Operating Expenses		
Salaries	\$ 804,394	\$ -
Fringe Benefits	204,068	-
Purchased Services	1,290,783	-
Materials and Supplies	36,873	-
Depreciation	72,952	-
Other	14,494	-
Purchased Services: Management Fees	-	1,744,826
Purchased Services: Grant Programs	-	326,908
Sponsorship Fees	-	9,305
Legal	-	30,072
Auditing & Accounting	-	20,797
Professional Services	-	66,538
Insurance	-	1,390
Board of Education	-	34,780
Supplies and Materials	-	79,849
Miscellaneous	<u>-</u>	<u>4,310</u>
Total Expenses	<u>\$2,423,564</u>	<u>\$2,318,775</u>
Change in Net Assets	\$ (287,970)	\$ (42,745)

The primary reason for the decrease in overall revenues from 2007 was the decrease in students from 293 in fiscal year 2007 to 244 in fiscal year 2008. The School's most significant expenses, "Purchased Services" decreased due to the termination of the former management company contract.

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008
(Unaudited)**

Budgeting Highlights

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

Capital Assets

At the end of fiscal year 2008 the School had \$239,672, invested in Capital Assets. Table 3 shows:

(Table 3)

	<u>2008</u>	<u>2007</u>
Computers	\$ 113,219	\$ -
Equipment and Furniture	126,453	-
Totals	<u>\$ 239,672</u>	<u>\$ -</u>

For more information on capital assets, see Note 2 (F) in the Notes to the Basic Financial Statements.

Current Financial Issues

The Hope Academy High School received revenue for 244 students in 2008 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 \$6,352 in fiscal year 2007 with a 6.82 percent increase in State Basic Aid planned in fiscal year 2008. 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. Ohio Council of Community Schools charged a half-percent of State Aid to be paid by the School for fiscal year 2008. The sponsor terminated the Schools' sponsorship agreement effective June 30, 2008.

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 High School, 7215 Sawmill Rd, Suite 050, Dublin, OH 43016 or e-mail at badams@ocscld.com.

HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets

Current Assets

Cash and Cash Equivalents	\$ 4,184
Accounts Receivable	169
Grants Receivable	52,942
Receivable from Schools	<u>3,557</u>

Total Current Assets 60,852

Noncurrent Assets:

Deposit held by Landlord	22,222
Depreciable Capital Assets, net	<u>239,672</u>

Total Noncurrent Assets \$ 261,894

Total Assets \$ 322,746

Liabilities

Current Liabilities

Accounts Payable	\$ 256,724
State Funding Payable	128,620
Payable to Schools	11,485
Grants Payable to State	6,614
Other Intergovernmental Payable	3,276
Loan due to Hope Academy Cathedral	100,000
Accrued Wages and Benefits	<u>88,385</u>

Total Liabilities 595,104

Net Assets

Investment in Capital Assets, Net of Related Debt	239,672
Unrestricted	<u>(512,030)</u>

Total Net Assets \$(272,358)

See accompanying notes to the basic financial statements

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Revenues

State Aid	\$1,655,624
School Fees	<u>2,157</u>
Total Operating Revenues	1,657,781

Operating Expenses

Salaries	804,394
Fringe Benefits	204,068
Purchased Services	1,290,783
Materials and Supplies	36,873
Depreciation	72,952
Other	<u>14,494</u>
Total Operating Expenses	2,423,564

Operating Loss (765,783)

Non-Operating Revenue

Grants	122,119
Interest Income	8,621
Donations	37,670
Miscellaneous Non-Operating Income	<u>309,403</u>
Total Non-Operating Revenue	477,813

Change in Net Assets (287,970)

Net Assets Beginning of Year 15,612

Net Assets End of Year \$ (272,358)

See accompanying notes to the basic financial statements

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 1,580,596
Cash Received from Other Operating Sources	2,157
Cash Payments to Employees for Services	(727,837)
Cash Payments for Employee Benefits	(188,964)
Cash Payments to Suppliers for Goods and Services	<u>(1,520,825)</u>
Net Cash Used For Operating Activities	(854,873)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Miscellaneous Cash Receipts	2,000
Cash Received from Grant Programs	<u>399,855</u>
Net Cash Provided by Noncapital Financing Activities	401,855

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Received from Hope Academy Cathedral	100,000
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CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	8,621
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Net Decrease in Cash and Cash Equivalents	(344,397)
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Cash and Cash Equivalents Beginning of Year	<u>348,581</u>
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Cash and Cash Equivalents End of Year	<u>\$ 4,184</u>
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**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(continued)**

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

Operating Loss	\$ (765,783)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	72,952
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Changes in Assets and Liabilities:

Accounts Receivable	(19)
Deposits held with Landlord	(22,222)
Sponsor Fee Receivable	869
Receivable from Schools	(3,557)
Accounts Payable	139,472
State Funding Payable	(75,028)
Grant Funding Payable	(307,070)
Sponsor Fee Payable	(1,120)
Payable to Schools	8,358
Grants Payable to State	6,614
Accrued Wages and Benefits	88,385
Other Intergovernmental Payable	3,276

Net Cash Used For Operating Activities	<u>\$ (854,873)</u>
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See accompanying notes to the basic financial statements

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hope Academy High School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School signed a contract with a sponsor, Ohio Council of Community Schools, to operate for a period from July 1, 2005 through June 30, 2010. Effective July 1, 2005, House Bill 364 required schools to be sponsored by an approved Ohio Department of Education sponsor. On June 30, 2008, the sponsor terminated its agreement with the School.

The School operates under a self-appointing, five-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 School began operations in August 2006 and has one instructional/support facility. The facility is staffed with teaching personnel who provide services to 244 students. The Board also operates Hope Academy Broadway Campus, Hope Academy Cathedral Campus, Hope Academy Chapelside Campus, Hope Academy Lincoln Park Campus, 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 HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(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 2007. 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 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 2008, 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, 2008.

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 HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(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 2008 school year totaled \$1,777,743.

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 \$239,672. Depreciation is computed by the straight-line method over three years for "Computer and Software", and five years for "Equipment".

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 HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all School deposits was \$3,647. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, the School's bank balance of \$10,032 was covered by the Federal Deposit Insurance Corporation and not exposed to custodial risk as explained below.

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.

The School has no deposit policy for custodial risk beyond the requirements of State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being pledged.

B. Investments

As of June 30, 2008, 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	\$537	\$537	\$ -	\$ -

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, 2008:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent to Total</u>
STAROhio	\$537	100.00

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

4. STATE FUNDING PAYABLE

The School has also 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. For fiscal year 2008, the balance payable to the State was \$128,620.

5. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$52,942 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2008.

Additionally, the Ohio Department of Education recently conducted an audit over the school lunch program and determined that the school was overpaid by \$6,614. This amount has been recorded as "Grants Payable to State" on the Statement of Net Assets.

6. LOANS TO SCHOOLS

The School entered into an agreement with Hope Academy Cathedral in March 2008 in the amount of \$100,000 with 7% interest. The principal and interest shall be paid over 60 months beginning October 30, 2008 and ending on October 30, 2013. As of June 30, 2008, the school did not make any payments to Hope Academy Cathedral, therefore, a payable in the amount of \$100,000 has been recorded on the financial statements.

7. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2008, the School's capital assets consisted of the following:

Capital Assets Being Depreciated:	<u>Balance 06/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/08</u>
Computers	\$ -	\$160,100	\$ -	\$160,100
Equipment and Furniture	-	<u>152,524</u>	-	<u>152,524</u>
Total Capital Assets Being Depreciated	<u>-</u>	<u>312,624</u>	<u>-</u>	<u>312,624</u>
Less Accumulated Depreciation:				
Computers	-	(46,881)	-	(46,881)
Equipment and Furniture	-	<u>(26,071)</u>	-	<u>(26,071)</u>
Total Accumulated Depreciation	<u>-</u>	<u>(72,952)</u>	<u>-</u>	<u>(72,952)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ -</u>	<u>\$239,672</u>	<u>\$ -</u>	<u>\$ 239,672</u>

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

8. RISK MANAGEMENT

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

9. AGREEMENT WITH E SCHOOL CONSULTANTS

The Board of Directors outsourced a portion of its service needs to eSchool Consultants, LLC, a limited liability company beginning July 2007 through June 30, 2008 and renews thereafter for successive one (1) year periods, unless either party gives the other written notice of termination at least 30 days prior to the end of the initial term or any renewal term. Services included 1) assisting the Board in the implementation of a professional development program and other in-service training 2) to design, develop, and implement the following programs: curriculum and instruction, student recruitment, marketing and public relations, interactive computer network for students with instruction, grants acquisition and grants management, and a continuous improvement program. 3) facilitate and manage the computer/technology lease/purchase agreements as well as all maintenance agreements. In addition, E school would provide technical assistance and maintenance for the computer network program. The Board agrees to pay eSchool for each itemized service offered by eSchool ranging from \$250-1,000 per month per service. In addition, the Board shall pay eSchool Consultants a fee in the amount of \$40,000 annually for the specific and personal services of Dr. Coletta Musick who shall perform in the capacity as "Superintendent" of Hope High School. The Board and Dr. Musick agree that these services are separate and apart and unique from the general consulting services. The Board had purchased service expenses for the year ended June 30, 2008, to eSchool of \$613,811 and payables to eSchool at June 30, 2008 aggregating to \$149,224.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$27,654, \$27,467 and \$38,847 respectively, of which 100% has been contributed.

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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 fiscal years ended June 30, 2008, 2007 and 2006 were \$75,773, \$140,674 and \$98,481 respectively, of which 100% has been contributed.

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

11. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

Plan Description - The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$4,124.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$13,624, \$6,514, and \$9,490 respectively, of which 100% has been contributed.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,309, \$1,295, and \$1,831 respectively all of which has been contributed for fiscal years 2008 and 100% for fiscal years 2007 and 2006.

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$8,044, \$10,048, and \$7,034 respectively all of which has been contributed for all fiscal years.

12. OPERATING LEASE

On September 21, 2007, the School entered into a lease with MT Business Technologies for a copier that cannot be canceled or terminated. The terms of the lease is 60 months beginning in January 2008 with a monthly payment of \$218.07. The school does not own or have sole title to the equipment. Rent charges for fiscal year ending June 30, 2008 were \$1,090.35.

The following is a schedule of future minimum payments required under the operating lease as of June 30, 2008:

<u>Fiscal Year</u>	<u>Copier</u>
2009	\$ 2,617
2010	\$ 2,617
2011	\$ 2,617
2012	\$ 2,617
2013	\$ 1,526
Total	\$11,994

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.

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

13. CONTINGENCES (Continued)

B. Pending Litigation

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

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, 2008 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.

14. FEDERAL TAX STATUS

The School has filed its application for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. In the interim, the School has begun the process to file IRS Form 990, "Return of Organization Exempt from Income Tax".

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 and Federal Aid. Total fees for fiscal 2008 were \$8,548. The contract is for five years ending June 30, 2010. The Sponsor provides oversight, monitoring and technical assistance for the School. At June 30, 2008, the School was due \$149 due to overpayments throughout the school year. This amount has been recorded as an account receivable on the financial statements.

16. PAYABLES TO 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, 2008, the School has \$11,485 due to other schools (payable).

17. SUBSEQUENT EVENTS

In June 2008, the Ohio Department of Education ceased funding to Hope High School based upon the suspension of the Schools' operation by its Sponsor, Ohio Council for Community Schools. The Board of Hope High School has appealed this decision. The appeal was upheld by the State Board of education and the school is officially closed.

**HOPE ACADEMY HIGH SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)**

18. PURCHASED SERVICES

For the year ended June 30, 2008, the purchased service expenses were comprised of the following:

Professional and Technical Services	\$ 641,332
Property Services	473,516
Travel and Board Meeting Expense	228
Communications	10,591
Utilities	41,441
Contracted and Trade Services	119,274
Other Purchased Services	<u>4,400</u>
 Total Purchased Services	 <u><u>\$ 1,290,783</u></u>

19. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The implementation of this Statement did not result in any change to the financial statements.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this Statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this Statement did not result in any change to the financial statements.

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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 High School
Cuyahoga County
% Allison Perz, Ohio Council of Community Schools
3131 Executive Parkway, Suite 306
Toledo, Ohio 43606

To the Former Academy Sponsor:

We have audited the basic financial statements of the Hope Academy High School, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2008 and have issued our report thereon dated March 3, 2009, wherein we noted the School ceased operations on June 30, 2008. 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 Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

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

Hope Academy High School
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

We noted certain matters that we reported to the Academy's management in a separate letter dated March 3, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, Board of Directors, and the Community School's sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 3, 2009



Mary Taylor, CPA
Auditor of State

HOPE ACADEMY HIGH SCHOOL

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
APRIL 16, 2009**