

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
HOPE ACADEMY CHARTER SCHOOL
MARION COUNTY, INDIANA
July 1, 2006 to June 30, 2007



FILED

05/19/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Government-Wide Financial Information:	
Schedule of Activities and Net Assets – Cash and Investment Basis	4
Fund Financial Information:	
Governmental Funds:	
Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds	5
Notes to Financial Information	6-8
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, And Changes in Fund Balances-Cash and Investment Basis – Other Governmental Funds	9
Schedule of Long-Term Debt	10
Examination Results and Comments:	
Overdrawn Cash Balances.....	11
Deposits.....	11
Public Records Retention	11
Disbursement Documentation	11
Official Bond	12
Error on Claim.....	12
Exit Conference.....	13
Official Response	14-15

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michael Huth	07-01-06 to 06-30-08
Director	Michelle Thompson Gail Stone	07-01-06 to 06-30-07 07-01-07 to 06-30-08
Chairman of the School Board	Christopher Stack, M.D.	07-01-06 to 06-30-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE HOPE ACADEMY CHARTER SCHOOL, MARION COUNTY, INDIANA

We have examined the financial information presented herein of the Hope Academy Charter School (School Corporation), for the period of July 1, 2006 to June 30, 2007. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the School Corporation for the year ended June 30, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

April 2, 2008

HOPE ACADEMY CHARTER SCHOOL
SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 108,168	\$ -	\$ 3,360	\$ (104,808)
Support services	252,244	5,988	189	(246,067)
Debt service	<u>3,602</u>	<u>-</u>	<u>-</u>	<u>(3,602)</u>
Total governmental activities	<u>\$ 364,014</u>	<u>\$ 5,988</u>	<u>\$ 3,549</u>	<u>(354,477)</u>
General receipts:				
Property taxes				1,769
Other local sources				47,129
State aid				52,118
Loans				85,342
Grants and contributions not restricted to specific programs				269,482
Sale of property, adjustments, and refunds				864
Investment earnings				<u>1,786</u>
Total general receipts				<u>458,490</u>
Change in net assets				<u>104,013</u>
Net assets - ending				<u>\$ 104,013</u>
<u>Assets</u>				
Cash and investments				<u>\$ 104,013</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 104,013</u>

The accompanying notes are an integral part of the financial information.

HOPE ACADEMY CHARTER SCHOOL
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	NESSI Grant	Federal Programs	Other	Totals
Receipts:					
Local sources	\$ 11,684	\$ 39,000	\$ -	\$ 5,988	\$ 56,672
State sources	55,478	-	-	189	55,667
Federal sources	-	-	269,482	-	269,482
Sale of property, adjustments and refunds	864	-	-	-	864
	<u>68,026</u>	<u>39,000</u>	<u>269,482</u>	<u>6,177</u>	<u>382,685</u>
Disbursements:					
Current:					
Instruction	107,979	-	-	189	108,168
Support services	246,649	-	5,573	22	252,244
Debt services	3,602	-	-	-	3,602
	<u>358,230</u>	<u>-</u>	<u>5,573</u>	<u>211</u>	<u>364,014</u>
Excess (deficiency) of receipts over disbursements	<u>(290,204)</u>	<u>39,000</u>	<u>263,909</u>	<u>5,966</u>	<u>18,671</u>
Other financing sources:					
Loan proceeds	<u>85,342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,342</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(204,862)</u>	<u>39,000</u>	<u>263,909</u>	<u>5,966</u>	<u>104,013</u>
Cash and investments - ending	<u>\$ (204,862)</u>	<u>\$ 39,000</u>	<u>\$ 263,909</u>	<u>\$ 5,966</u>	<u>\$ 104,013</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ (204,862)</u>	<u>\$ 39,000</u>	<u>\$ 263,909</u>	<u>\$ 5,966</u>	<u>\$ 104,013</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ (204,862)</u>	<u>\$ 39,000</u>	<u>\$ 263,909</u>	<u>\$ 5,966</u>	<u>\$ 104,013</u>

The accompanying notes are an integral part of the financial information.

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

Note 2. Fund Accounting

A. Government-Wide and Fund Financial Schedules

Government-Wide Financial Schedules

The Schedule of Activities and Net Assets - Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Schedules

The fund financial schedule of the reporting entity is organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial schedules are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial schedules. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial schedules.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The nesi grant fund accounts for monies received from a specific grant from the gates foundation.

The federal programs fund accounts for monies used for specific activities as authorized by the public charter school grant accounted for in this fund.

B. Measurement Focus and Basis of Accounting

The government-wide and governmental fund financial schedules are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial schedules.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial schedules for governmental funds would use the modified accrual basis of accounting, while the fund financial schedules for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund schedules to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School Corporation has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial schedules.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected. However, a delay in the approval of taxable property assessments resulted in May 2007 tax bills not being issued until November 2007. This caused a significant decrease in receipts from local sources/property taxes for the year 2006-2007.

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Note 6. Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

HOPE ACADEMY CHARTER SCHOOL
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

	School Lunch	Textbook Rental	Totals
Receipts:			
Local sources	\$ 5,988	\$ -	\$ 5,988
State sources	-	189	189
Total receipts	5,988	189	6,177
Disbursements:			
Current:			
Instruction	-	189	189
Support services	22	-	22
Total disbursements	22	189	211
Excess of receipts over disbursements	5,966	-	5,966
Cash and investments - ending	\$ 5,966	\$ -	\$ 5,966
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	\$ 5,966	\$ -	\$ 5,966
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	\$ 5,966	\$ -	\$ 5,966

HOPE ACADEMY CHARTER SCHOOL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For the Year Ended June 30, 2007

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable	\$ 83,208	\$ 7,553
Total governmental activities debt	\$ 83,208	\$ 7,553

HOPE ACADEMY CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The General Fund was overdrawn \$204,862 at June 30, 2007.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DEPOSITS

Receipts in numerous instances were deposited later than the next business day.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . ."

PUBLIC RECORDS RETENTION

Original voided checks were not presented for examination. Only the duplicate with "void" written across the face of the document was available for review.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENT DOCUMENTATION

We noted one payment which did not contain adequate supporting documentation such as receipts, bills, or invoices. Specifically, the claim was for \$102.25 reimbursing a teacher for educational materials. The claim was supported by one receipt in the amount of \$50.30, leaving \$51.95 of the disbursement as unsubstantiated.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

HOPE ACADEMY CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

OFFICIAL BOND

The official bond of the Treasurer, Michael Huth, was not filed in the Office of the County Recorder.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

ERROR ON CLAIMS

Paid claims did not have documented School Board approval during the examination period.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

HOPE ACADEMY CHARTER SCHOOL
EXIT CONFERENCE

The contents of this report were discussed on April 2, 2008, with Michael Huth, Treasurer; Rachelle Gardner, Chief Operating Officer; Helene M. Cross, President/CEO of Fairbanks; Christopher Stack, M.D., Chairman of the School Board; and Beth Reynolds, Bookkeeping Plus Representative. The official response has been made a part of this report and may be found on pages 14 and 15.



THE RECOVERY HIGH SCHOOL
AT FAIRBANKS

April 9, 2008

Indiana State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, IN 46204-2765

Re: **OFFICIAL RESPONSE** to Audit Report for Hope Academy Charter School, The Recovery High School at Fairbanks, Inc.

Dear Sir/Madam:

Thank you for the attention given to us during the recent audit conducted for Hope Academy. We appreciated the thoroughness of the audit and the auditor's official response provided at the exit conference. They clarified Indiana Code and provided us information that resulted in procedural changes. We feel this audit was very good for our first year in existence and we will continue to strive to have a perfect audit. Following is our correction plan that corresponds with the examination results and comments:

Overdrawn cash balances

This issue has been corrected. Timely allocations are being made upon receipt of the Federal funds. If there is a negative balance Fairbanks Hospital has and will continue to fund the deficit.

Deposits

Deposits will be prepared on a daily basis and taken to the bank within 24 hours regardless of the amount. In the past, cash receipts under approximately \$25 were not deposited daily.

Public Records Retention

Upon receipt of the audit examination results the Accounting Service was advised to institute a new policy record retention policy. Accordingly, after every 6 months all checks will be reviewed, a missing check report will be prepared, and ensure that all checks that have been voided are included with the check copies. If for some reason that is out of their control – printer issues, etc – they will note the reason for the missing item to fully document the circumstance.

Re: **OFFICIAL RESPONSE** to Audit Report for Hope Academy Charter School,
The Recovery High School at Fairbanks, Inc. April 9, 2008

Disbursement Documentation

All claims to be paid will be reviewed in greater detail and substantiated by proper documentation. Expense reports will be required to include original receipts in order receive a reimbursement.

Official Bond

The treasurer is now aware that the bond must be filed at the Records Office at the City County building. The filing will be complete by April 30, 2008.

Error on Claims

An action item calling for the Board of Directors to approve the voucher report will be on all future Board agendas beginning April 22, 2008. In the past the Board reviewed the financial report indicating the expenses, but did not provide specific approval for each voucher.

Again, thank you for your services.

Sincerely,



Helene M. Cross
President and Chief Executive Officer



Michael R. Huth
Treasurer

Cc: Christopher Stack, M.D.
Board Chairman