



**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	1

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

HOPE Academy Northwest Campus
Cuyahoga County
1441 W. 116th Street
Cleveland, Ohio 44102

To the Board of Directors:

We have audited the basic financial statements of HOPE Academy Northwest Campus (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. 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 in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated December 22, 2005, we reported a matter related to noncompliance we deemed immaterial.

HOPE Academy Northwest Campus
Cuyahoga County
Independent Accountant's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

December 22, 2005

Comprehensive Annual Financial Report

For the Year Ended June 30, 2005



*There is HOPE
for every child*

HOPE Academy Northwest Campus

Cleveland, Ohio

**HOPE ACADEMY NORTHWEST CAMPUS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal.....	i
Board of Directors.....	iv
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 – 2005 Fiscal Year.....	23
Operating and Non-Operating Revenues – 2005 Fiscal Year.....	24
Full Time Equivalent (FTE) Enrollment – 2005 Fiscal Year.....	25
Grant Revenues By Source – 2005 Fiscal Year.....	26
Net Assets – 2005 Fiscal Year.....	27
State Basic Aid - Per Pupil Funding Amount – 2005 Fiscal Year.....	28
Student Population by Resident District-2005 Fiscal Year.....	29
Miscellaneous Statistics.....	30

Introductory Section

This page intentionally left blank.



1441 W. 116th St.
Cleveland, Ohio 44102
216-226-6800 [P]
216-226-8501 [F]
www.hope-academies.com

December 31, 2005

HOPE Academy Northwest Campus Community
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the HOPE Academy Northwest Campus (the School) for the fiscal year ended June 30, 2005. 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 and a list of our Board members.

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, 2005 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 2005 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. HOPE Academy Northwest Campus is sponsored by the Ohio Council for Community Schools (OCCS). OCCS provides oversight and advisory services to 46 community schools throughout the State serving nearly 22,000 children.

HOPE Academy Northwest Campus is an elementary school offering grades K-8. The School, which first opened its doors in August of 2004 is located in the city of Cleveland, Ohio and is run by a five member Board of Directors. The School looks to its significant first year enrollment as a measure of its success (see more at www.hope-academies.com). The School has contracted with White Hat Management, LLC and its subsidiaries (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 22,000 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). Although per pupil funding in the State has increased over the past several years, 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 nearly \$12,000 in average per pupil funding from all sources whereas the School, which is also located in the City of Cleveland, receives only about \$7,700. 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. See Note 8 for a full description of services provided by the Company.

As discussed later, the School was funded on 333 full-time equivalent students for fiscal year 2005. As of the date of this letter, the School has experienced the same strong enrollment with an additional increase keeping the School at its capacity. Based on these increases, coupled with increases in State funding, it is expected that revenues for fiscal year 2006 will exceed those of fiscal year 2005.

Also, 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 9 to the basic financial statements under the Financial Section includes the required information for fiscal year ended June 30, 2005.

Awards and Acknowledgments

The Government Finance Officer's Association of the United States and Canada (GFOA) will award a Certificate of Achievement for Excellence in Financial Reporting. 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 efficiently organized CAFR, whose contents conforms 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. I would also like to thank Ms. Thomas and other members of the Board of Directors 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,



C. David Massa, CPA
Fiscal Officer
HOPE Academy Northwest Campus



Michelle Thomas
President, Board of Directors
HOPE Academy Northwest Campus

**HOPE Academy Northwest Campus
Board of Directors
June 30, 2005**

Michelle Thomas	Board President
Scott Ashley	Board Member
K. Tyson Fankhauser	Board Member
Renea Collins	Board Member
Bonnie Childs	Board Member

Financial Section

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

HOPE Academy Northwest Campus
Cuyahoga County
1441 W. 116th Street
Cleveland, Ohio 44102

To the Board of Directors:

We have audited the accompanying basic financial statements of the HOPE Academy Northwest Campus, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of HOPE Academy Northwest Campus, Cuyahoga County, Ohio, as of June 30, 2005, 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 December 22, 2005, 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 the Governmental Accounting Standards Board 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 22, 2005

**HOPE ACADEMY NORTHWEST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

The discussion and analysis of the HOPE Academy Northwest Campus's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. 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

- The School officially opened its doors in August 2004, thus all of the financial activity occurred during the last eleven months of the fiscal year.
- In total, Net Assets increased \$46,571 due to the inflow of State Aid from the State of Ohio for student enrollment.
- Total assets increased \$385,182, which represents a 100 percent increase from 2004. At year end, the School had significant receivables from the State of Ohio for FTE enrollment and grant subsidies.
- Liabilities increased \$338,611. As explained later, the increase in liabilities is a direct result of the increase in State and Federal receivables, which directly increases 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.

**HOPE ACADEMY NORTHWEST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2005. 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.

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

(Table 1)	
Net Assets	
	2005
Assets	
Current Assets	\$ <u>385,182</u>
Liabilities	
Current Liabilities	\$ <u>338,611</u>
Net Assets	
Unrestricted	\$ <u>46,571</u>

Total assets increased \$385,182. This increase was primarily due to the inflow of cash as a result of payments from the State of Ohio for student enrollment, as well as, the accrual of certain receivables totaling \$276,936. Liabilities increased by \$338,611. This increase directly corresponds to the increase in receivables 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.

**HOPE ACADEMY NORTHWEST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Statement of Revenues, Expenses, and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2005
Operating Revenues	
State Aid	\$ 2,212,550
Non-Operating Revenues	
Grants	347,261
Total Revenues	2,559,811
Operating Expenses	
Purchased Services: Management Fees	2,146,173
Purchased Services: Grant Programs	347,261
Sponsorship Fees	11,063
Legal	998
Insurance	7,299
Advertising	431
Miscellaneous	15
Total Expenses	2,513,240
Change in Net Assets	\$ 46,571

The reason for the increase in both operating and non-operating revenues in 2005 was because the School began enrolling students in August 2004 which started the inflow of cash from the State of Ohio for student full-time equivalent (FTE) enrollment and grant subsidies. The School's most significant expenses, "Purchased Services" increased 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 8.) Other expenses as listed above also increased due to the School being in operation during its first year.

**HOPE ACADEMY NORTHWEST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Unaudited)**

Current Financial Issues

The HOPE Academy Northwest Campus received revenue for 333 students in 2005. 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 \$6,644 in fiscal year 2005 with a 2.2 percent increase in State Basic Aid planned for fiscal year 2006. The School receives additional revenues from grant subsidies.

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 Dave Massa, Fiscal Officer for the HOPE Academy Northwest Campus, 159 South Main Street, Akron, Ohio 44308 or e-mail at david.massa@whitehatmgmt.com.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 108,246
State Funding Receivable	48,067
Grants Funding Receivable	<u>228,869</u>

Total Current Assets \$ 385,182

LIABILITIES

Current Liabilities

Accounts Payable	\$ 8,272
Grants Funding Payable	272,652
Sponsorship Fees Payable	240
Continuing Fees Payable	<u>57,447</u>

Total Current Liabilities \$ 338,611

NET ASSETS

Unrestricted Net Assets \$ 46,571

Total Net Assets \$ 46,571

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

**HOPE ACADEMY NORTHWEST CAMPUS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2005**

OPERATING REVENUE

State Aid	\$ 2,212,550
Total Operating Revenue	2,212,550

OPERATING EXPENSES

Purchased Services: Management Fees	2,146,173
Purchased Services: Grant Programs	347,261
Sponsorship Fees	11,063
Legal	998
Advertising	431
Insurance	7,299
Miscellaneous	15
Total Operating Expenses	2,513,240
Operating Loss	(300,690)

NON-OPERATING REVENUES

Grants	347,261
Total Non-Operating Revenues	347,261
Change in Net Assets	46,571
Net Assets, July 1, 2004	-
Net Assets, June 30, 2005	\$ 46,571

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

**HOPE ACADEMY NORTHWEST CAMPUS
 CUYAHOGA COUNTY
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2005**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Sources	\$ 2,164,483
Cash Payments to Suppliers for Goods and Services	<u>(2,174,629)</u>
Net Cash Used for Operating Activities	(10,146)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	<u>118,392</u>
Net Cash Received by Noncapital Financing Activities	<u>118,392</u>
Net Increase in Cash and Cash Equivalents	108,246
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ 108,246</u>

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

Operating Loss	\$ (300,690)
----------------	--------------

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

Changes in Assets and Liabilities:	
State Funding Receivable	(48,067)
Accounts Payable	8,272
OCCS Fees Payable	240
Grants Funding Payable	272,652
Continuing Fees Payable	<u>57,447</u>
Total Adjustments	<u>290,544</u>
Net Cash Used for Operating Activities	<u>\$ (10,146)</u>

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

This page intentionally left blank.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

HOPE Academy Northwest Campus (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 contracts with WHLS of Ohio, LLC (WHLS) for most of its functions. See Note 8.

The School was approved for operation under contract with the Ohio Council of Community Schools (Sponsor) for a period of five years from July 1, 2004 through June 30, 2009. 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 has one instructional/support facility, which is leased by WHLS. The facility is staffed with teaching personnel employed by WHLS, who provide services to 333 students. The Board also operates the Life Skills Center of North Akron in the city of Akron and Life Skills Center of Metro Cleveland in the city of Cleveland.

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.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts and spending plans.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. CASH AND CASH EQUIVALENTS

All cash received by the School is maintained in a demand deposit account. 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.

E. INTERGOVERNMENTAL REVENUES

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the school must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2005 school year totaled \$2,559,811.

F. CAPITAL ASSETS AND DEPRECIATION

The School has no capital assets, as the School operates under a management agreement with WHLS. (See Note 8.)

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. All of the School's net assets at June 30, 2005, were unrestricted.

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.

3. DEPOSITS

At June 30, 2005, the carrying amount of all School deposits was \$108,246. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$10,764 of the School's bank balance of \$110,764 was exposed to custodial risk as discussed below, while \$100,000 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% 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.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

4. STATE FUNDING RECEIVABLE

The School has recognized on its Statement of Net Assets a "State Funding Receivable" for the amount of State Aid estimated to be paid to the School by the Ohio Department of Education (ODE) based on the difference in the amount the School actually received versus the amount earned through qualified student full-time equivalent (FTE) enrollment as determined at the end of the year. A receivable reflects that the School was funded on a lower estimated, qualified enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2005, the amount of "State Funding Receivable" was \$48,067.

5. CONTINUING FEES PAYABLE

Under the terms of the management agreement with WHLS (See Note 8.), a related "Continuing Fees Payable" in the amount of \$57,447 has been recorded by the School for 97 percent of the amount of "State Funding Receivable" due from the State and \$10,822 due to WHLS for uncollected management fees. (See Note 4.)

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$228,869 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2005.

Additionally, under the terms of the management agreement (See Note 8.), the School has recorded a liability to WHLS in the amount of \$272,652 for 100 percent of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2005.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

7. 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. Claims did not exceed insurance coverage over the past year. (See Note 8.)

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

8. AGREEMENT WITH WHLS

Effective July 28, 2004, the School entered into a five-year Management Agreement (Agreement) with WHLS, which is an educational consulting and management company. The Agreement's term coincides with the School's charter agreement and will renew for additional, successive five (5) year terms unless one party notifies the other party at least six (6) months prior to the expiration of the then-current term of its intention to not renew the agreement. 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. The School is required to pay WHLS a monthly continuing fee of 97 percent of the School's "Qualified Gross Revenues", defined in the Agreement as, "...all revenues and income received by the School except for charitable contributions" and "WHLS shall receive 100 percent of any and all grants or funding of any kind generated by WHLS, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues. The School had purchased service expenses for the year ended June 30, 2005, to WHLS of \$2,493,434 and payables to WHLS at June 30, 2005, aggregating \$330,099. 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 NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

9. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2005, White Hat Ventures, LLC and its affiliates incurred the following expenses on behalf of the School.

	2005
Expenses	
Direct Expenses:	
Salaries & wages	\$ 1,175,274
Employees' benefits	290,156
Professional & technical services	166,710
Property services	261,111
Communications	30,862
Utilities	56,329
Books, periodicals, & films	55,589
Other supplies	222,203
Food & Related Supplies	116,923
Depreciation	237,872
Other direct costs	29,679
Indirect Expenses:	
Overhead	431,676
Total Expenses	\$ 3,074,384

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.

10. 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 8.)

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

10. 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.

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2005, was \$34,885; 100 percent has been contributed for fiscal year 2005.

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.

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.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

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.

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, 2005, 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. 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 for the fiscal year ended June 30, 2005, was \$79,097; 100 percent has been contributed for fiscal year 2005.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS

WHLS, on behalf of the School, provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the 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 retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$6,084 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School paid \$11,320 to fund health care benefits, including the surcharge.

**HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. 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

The suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the HOPE Academy Northwest Campus 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. 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 NORTHWEST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

13. 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.

14. FEDERAL TAX EXEMPTION STATUS

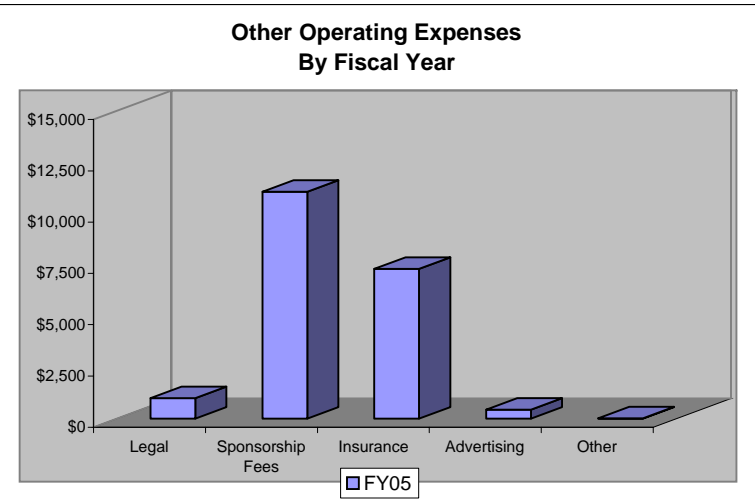
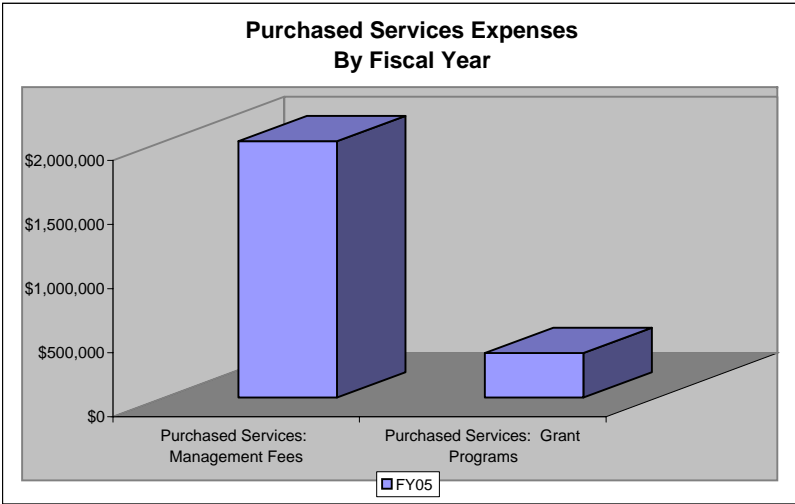
In accordance with the options granted under existing Ohio law, the School has not yet filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Under federal statute, a corporate entity has 27 months from its date of incorporation to apply for federal tax exemption. The School has indicated that although it currently operates this School as an Ohio not-for-profit corporation, it will ultimately apply for tax-exempt status under Internal Revenue Code Section 501(c)(3). In the interim, the School has begun the process to file IRS Form 990, "Return of Organization Exempt From Income Tax".

Statistical Section

This page intentionally left blank.

**HOPE Academy Northwest Campus
Operating Expenses by Category
2005 Fiscal Year**

<u>Year</u>	<u>Purchased Services: Management Fees</u>	<u>Purchased Services: Grant Programs</u>	<u>Sponsorship Fees</u>	<u>Legal</u>	<u>Insurance</u>	<u>Advertising</u>	<u>Other</u>	<u>Total</u>	<u>FTE Enrollment</u>	<u>Per Pupil Expenditure</u>
2005	\$ 2,146,173	\$ 347,261	\$ 11,063	\$ 998	\$ 7,299	\$ 431	\$ 15	\$ 2,513,240	333	\$ 7,547

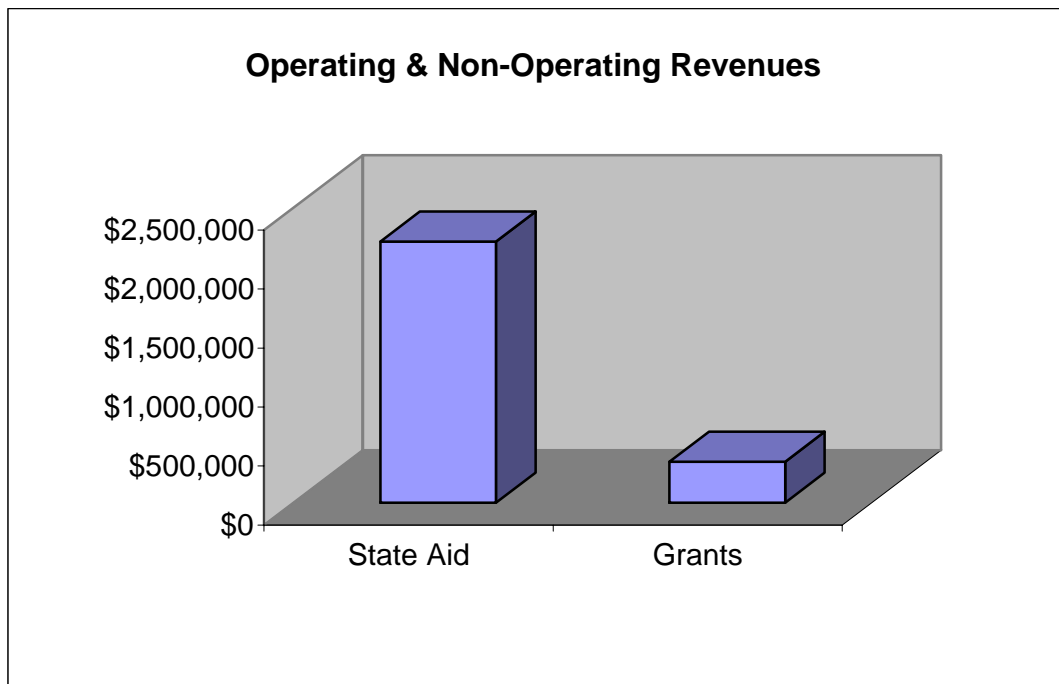


Note: The School began enrolling students in FY05.

Source: School Financial Records

**HOPE Academy Northwest Campus
Operating and Non-Operating Revenues
2005 Fiscal Year**

<u>Year</u>	<u>State Aid</u>	<u>Grants</u>	<u>Total</u>
2005	\$ 2,212,550	\$ 347,261	\$ 2,559,811



Note: The School began enrolling students in FY05.

Source: School Financial Records

**HOPE Academy Northwest Campus
Full-Time Equivalent (FTE) Enrollment
2005 Fiscal Year**

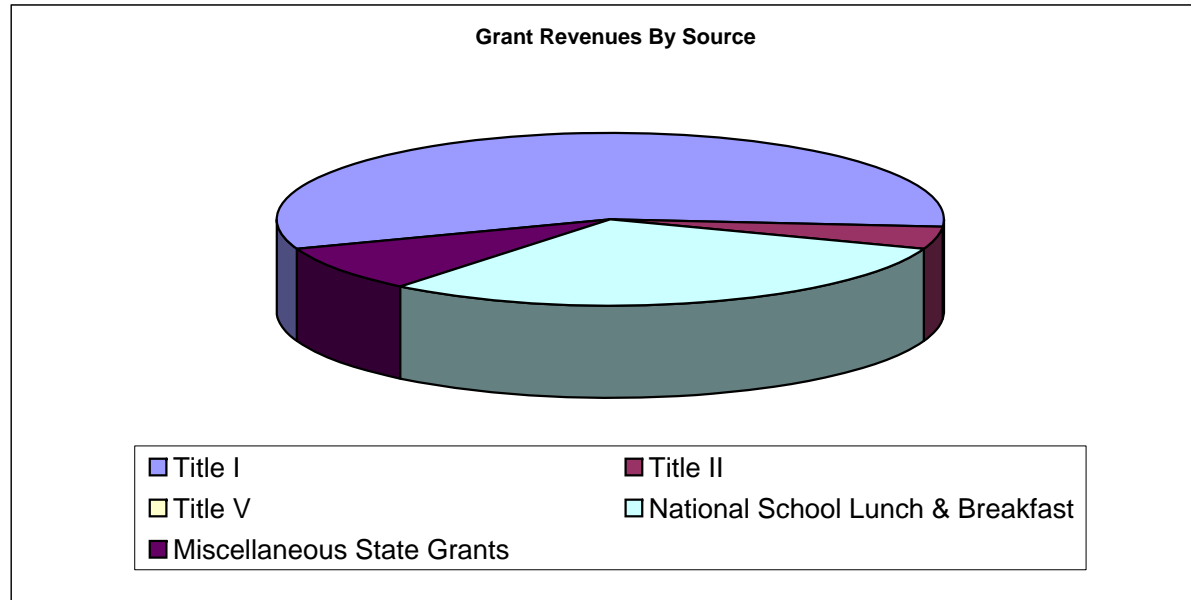
<u>Year</u>	<u>Enrollment</u>
2005	333

Note: The School began enrolling students in FY05.

Source: School Financial Records

**HOPE Academy Northwest Campus
Grant Revenues By Source
2005 Fiscal Year**

<u>Year</u>	<u>Title I</u>	<u>Title II</u>	<u>Title IV</u>	<u>Title V</u>	<u>National School Lunch & Breakfast</u>	<u>Miscellaneous State Grants</u>	<u>Total</u>
2005	\$ 197,979	\$ 13,907	\$ -	\$ 370	\$ 105,172	\$ 29,833	\$ 347,261



Note: The School began enrolling students in FY05.

Source: School Financial Records

**HOPE Academy Northwest Campus
State Basic Aid - Per Pupil Funding Amount
2005 Fiscal Year**

<u>Year</u>	<u>Per Pupil Funding</u>	<u>Cost of Doing Business Factor</u>	<u>Total Per Pupil Funding</u>
2005	\$ 5,169	1.0626	\$ 5,493

Note 1: In addition to the above, the School also receives other sources of State Aid including Disadvantaged Pupil Impact Aid, Parity Aid, and Special Education funding. These revenues have collectively been identified on the Statement of Revenues, Expenses, and Changes in Net Assets as "State Aid".

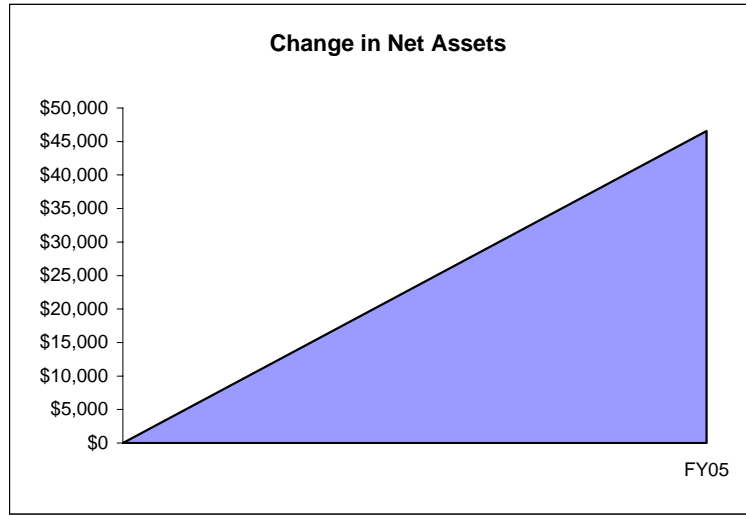
The Cost of Doing Business Factors are determined by the State of Ohio and vary by region.

Note 2: The School began enrolling students in FY05.

Source: Ohio Department of Education

**HOPE Academy Northwest Campus
Net Assets
2005 Fiscal Year**

Year	<u>Unrestricted</u>	<u>Change in Net Assets</u>
2005	\$ 46,571	\$ 46,571



Note: The School began enrolling students in FY05.

Source: School Financial Records

**HOPE Academy Northwest Campus
Student Population by Resident District
2005 Fiscal Year**

<u>Resident District</u>	<u>%</u>
Cleveland Public Schools	89.81%
Lakewood Local Schools	8.17%
Maple Heights School District	0.95%
Cleveland Heights Schools	0.76%
Berea Local Schools	0.13%
Strongsville School District	0.13%
East Cleveland School District	0.05%

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

Source: Ohio Department of Education website.

**Hope Academy Northwest Campus
Miscellaneous Statistics**

School Address: 1441 W 116th Street
Cleveland, OH 44102

Square Footage: 16992

Date of Incorporation: 7/28/2004

**Number of FY05
Instructional Staff:** 49

Total FY05 Staff: 55

**Instructional Staff/
Student Ratio:** 7:1

} Note: All staff are employees of WHLS of Ohio, LLC. See Note 8
in Notes to the Basic Financial Statements.

**Percent of
Free/Reduced Lunch:** 87.69%

Source: School Records



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HOPE ACADEMY NORTHWEST 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
JANUARY 12, 2006**