HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY

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Mary Taylor, CPA
Auditor of State

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, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of HOPE Academy Northwest Campus, Cuyahoga County, Ohio, (the School) as of June 30, 2008, 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.

As described in Note 17, the School's net assets and capital assets have been restated due to an error with respect to the amount of capital assets the School had on hand at the end of the 2007 school year.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements. The Federal Awards Revenues and Expenses Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. We subjected the Federal Awards Revenues and Expenses Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 31, 2009

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

The discussion and analysis of the HOPE Academy Northwest Campus' (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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their ***Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*** issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets increased $54,020, which represents a 27.0 percent increase from 2007. The increase is the result of a significant decrease in the School's grants funding payable from 2007 as well as an increase in capital assets.

- Total assets decreased $209,295 which represents a 35.3 percent decrease from 2007. This is primarily the result of decreased receivables related to the School's Federal grant subsidies.

- Liabilities decreased $263,315, which represents a 67.1 percent decrease over 2007. As explained later, the decrease in liabilities is a direct result of the decrease in State and Federal grant funding receivables, which directly decreases management fees owed.

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.

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.

Table 1 provides a summary of the School's net assets for fiscal year 2008 and fiscal year 2007.

(Table 1)
Net Assets

	2008	**Restated 2007**
Assets		
Current Assets	$ 318,814	$ 531,544
Capital Assets, Net	64,383	60,948
Total Assets	$ 383,197	$ 592,492
Liabilities		
Current Liabilities	$ 129,008	$ 392,323
Net Assets		
Invested in Capital Assets	$ 64,383	$ 60,948
Unrestricted	189,806	139,221
Total Net Assets	$ 254,189	$ 200,169

Total assets decreased $209,295. This decrease was primarily due to the significant decrease in the School's receivables related to the School's federal grant subsides. Liabilities decreased by $263,315. This decrease directly corresponds to the decrease in grants funding payable and continuing fees payable. The School operates under a management agreement with WHLS of Ohio, LLC (WHLS). Under the terms of the management agreement, WHLS is paid a specific percentage of the State and Federal revenues the School receives.

Statement of Revenues, Expenses, and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2008 and 2007, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2008	Restated 2007
Operating Revenues		
State Aid	$ 2,424,214	$ 2,450,850
Non-Operating Revenues		
Grants	558,982	690,729
Interest	10,183	10,066
Miscellaneous	-	5
Total Revenues	2,993,379	3,151,650
Operating Expenses		
Purchased Services: Management Fees	2,351,488	2,377,324
Purchased Services: Grant Programs	522,207	655,105
Sponsorship Fees	12,121	12,254
Legal	1,740	3,878
Insurance	6,658	7,219
Advertising	657	1,044
Auditing and Accounting	10,888	9,054
Depreciation	33,340	22,676
Board of Education	64	11,731
Miscellaneous	196	472
Total Expenses	2,939,359	3,100,757
Change in Net Assets	$ 54,020	$ 50,893

The reason for the decrease in operating and non-operating revenues in 2008 was the result of a decrease in the School's full-time equivalent (FTE) enrollment and the school receiving less grant funding than the prior year. The Board purchased computers and software for the School and therefore, "Depreciation" increased. The School's most significant expenses, "Purchased Services: Management Fees" decreased as well because of the management agreement in place between the School and WHLS. As stated previously, the agreement provides that specific percentages of the revenues received by the School will be paid to WHLS to fund operations. (See Note 10.)

Capital Assets

At the end of fiscal year 2008 the School had $41,227 in computers and software and $23,156 in equipment. Table 3 shows the balance for fiscal year 2008 compared to 2007.

(Table 3)
Capital Assets
(Net of Depreciation)

	2008	Restated 2007
Equipment	$ 23,156	$ 30,281
Computers and Software	41,227	30,667
Total	$ 64,383	$ 60,948

For more information on capital assets, see Note 8 in the Notes to the Basic Financial Statements.

Current Financial Issues

The HOPE Academy Northwest Campus received revenue for 342 students in 2008. 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 $7,088 in fiscal year 2008. 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 the Fiscal Officer for the HOPE Academy Northwest Campus, 159 South Main Street, Suite 600, Akron, Ohio 44308.

HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	262,163
Sponsorship Fees Receivable		4
Grants Funding Receivable		55,964
Continuing Fees Receivable		683
Total Current Assets		318,814
Noncurrent Assets		
Equipment, Net		23,156
Computers and Software, Net		41,227
Total Assets	$	383,197
LIABILITIES		
Current Liabilities		
Accounts Payable	$	530
Grants Funding Payable		127,774
State Funding Payable		704
Total Current Liabilities	$	129,008
NET ASSETS		
Invested in Capital Assets	$	64,383
Unrestricted		189,806
Total Net Assets	$	254,189

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, 2008

OPERATING REVENUE	
State Aid	$ 2,424,214
OPERATING EXPENSES	
Purchased Services: Management Fees	2,351,488
Purchased Services: Grant Programs	522,207
Sponsorship Fees	12,121
Legal	1,740
Advertising	657
Insurance	6,658
Auditing and Accounting	10,888
Depreciation	33,340
Board of Education	64
Miscellaneous	196
Total Operating Expenses	2,939,359
Operating Loss	(515,145)
NON-OPERATING REVENUES	
Grants	558,982
Interest	10,183
Total Non-Operating Revenues	569,165
Change in Net Assets	54,020
Net Assets, July 1, 2007 (Restated, See Note 17)	200,169
Net Assets, June 30, 2008	$ 254,189

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, 2008

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from State Sources	$	2,431,791
Cash Payments to Suppliers for Goods and Services		(3,170,725)
Net Cash Used for Operating Activities		(738,934)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Expenses		(36,775)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received from Grant Programs		814,694
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest		10,183
Net Increase in Cash and Cash Equivalents		49,168
Cash and Cash Equivalents at Beginning of Year		212,995
Cash and Cash Equivalents at End of Year	$	262,163
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating Loss	$	(515,145)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Depreciation		33,340
Changes in Assets and Liabilities:		
State Funding Receivable		6,873
Continuing Fees Receivable		(683)
Sponsorship Fees Receivable		(4)
Accounts Payable		(1,005)
State Funding Payable		704
Sponsorship Fees Payable		(34)
Grants Funding Payable		(256,314)
Continuing Fees Payable		(6,666)
Total Adjustments		(223,789)
Net Cash Used for Operating Activities	$	(738,934)

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

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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 10.)

The School was approved for operation under contract with the Ohio Council of Community Schools (OCCS) (Sponsor) for a period of five years from July 1, 2004 through June 30, 2009. The School operates under a self-appointing, six-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 include, but are 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 342 students. The Board also operates the Life Skills Center of North Akron 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In addition, the Board adopted an operating budget at the beginning of fiscal year 2008. 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 STAR Ohio. 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, STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio'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 which is reflected under "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Assets. Revenue received from this program is recognized as operating revenue 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. INTERGOVERNMENTAL REVENUES (Continued)

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 $2,983,196.

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 $56,016. Depreciation is computed by the straight-line method over three years for "Computers & Software" and five years for "Equipment."

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with WHLS. (See Note 10.)

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.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all School deposits was $8,205. Based on the criteria described in GASB Statement No. 40, "<u>Deposits and Investment Risk Disclosures</u>", as of June 30, 2008, none of the School's bank balance of $9,132 was exposed to custodial risk as discussed below.

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits with Financial Institutions (Continued)

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.

B. Investments

As of June 30, 2008, the School had the following investments and maturities:

		Investment Maturities		
Investment type	Balance at Fair Value	6 months or less	7 to 12 months	Greater than 24 months
STAROhio	$ 253,958	$ 253,958	$ -	$ -

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 STAR Ohio 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:

Investment type	Fair Value	% to Total
STAR Ohio	$ 253,958	100.00

4. STATE FUNDING PAYABLE

The School has recognized on its Statement of Net Assets a "State Funding Payable" for the amount of State Aid estimated to be paid to the Ohio Department of Education (ODE) by the School 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 payable reflects that the School was funded on a higher estimated, qualified enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year-end. At June 30, 2008, the amount of "State Funding Payable" was $704.

5. CONTINUING FEES RECEIVABLE

Under the terms of the management agreement with WHLS (See Note 10.), a related "Continuing Fees Receivable" in the amount of $683 has been recorded by the School.

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of $55,964 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2008.

Additionally, under the terms of the management agreement (See Note 10.), the School has recorded a liability to WHLS in the amount of $127,774 for 100 percent of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2008.

7. SPONSORSHIP FEES PAYABLE

A "Sponsorship Fees Receivable" to OCCS has been recorded by the School in the amount of $4 for one half of one percent (1/2%) of the "State Funding Payable" due from the State for the FTE liability. (See Note 4.)

8. CAPITAL ASSETS AND DEPRECIATION

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

	Restated Balance 06/30/07 (See Note 17)	Additions	Deletions	Balance 06/30/08
Capital Assets				
Being Depreciated:				
Computers and Software	$ 48,000	$ 36,775	-	$ 84,775
Equipment	35,624	-	-	35,624
Total Capital Assets Being Depreciated	83,624	36,775	-	120,399
Less Accumulated Depreciation:				
Computers and Software	(17,333)	(26,215)	-	(43,548)
Equipment	(5,343)	(7,125)	-	(12,468)
Total Accumulated Depreciation	(22,676)	(33,340)	-	(56,016)
Total Capital Assets Being Depreciated, Net	$ 60,948	$ 3,435	-	$ 64,383

9. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHLS, WHLS has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. There were no significant reduction in insurance coverage from the prior year and claims did not exceed insurance coverage over the past three years. (See Note 10.)

Director and Officer - Coverage has been purchased by the School with a $2,000,000 aggregate limit and a $5,000 deductible.

10. AGREEMENT WITH WHLS

Effective June 15, 2006, the School entered into an amended three-year Management Agreement (Agreement) with WHLS, which is an educational consulting and management company. The Agreement's term will end on June 30, 2009. The Agreement will renew for additional, successive one (1) year terms unless one party notifies the other party by February 1st of the then-current year 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 of the School. 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 qualified gross revenues.

The School had purchased service expenses for the year ended June 30, 2008, to WHLS of $2,873,695 of which $127,774 was payable to WHLS at June 30, 2008. 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.

11. SPONSORSHIP FEES

Under Paragraph D(5) of the sponsor contract with OCCS, it states that the School "…shall pay to the Sponsor the amount of one half of one percent (1/2%) of the total state funds received each year, in consideration for the time, organization, oversight, fees and costs of the Sponsor pursuant to this contract." Such fees are paid to the OCCS monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Assets, the School incurred $12,121 in sponsorship fees to OCCS.

12. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2008, WHLS of Ohio, LLC and its affiliates incurred the following expenses on behalf of the School.

		2008
Expenses		
Direct Expenses:		
Salaries and wages	$	1,364,525
Employees' benefits		424,487
Professional and technical services		439,952
Property services		259,677
Travel		8,749
Communications		7,989
Utilities		79,593
Books, periodicals, and films		134,679
Other supplies		123,298
Food and Related Supplies		162,628
Depreciation		286,540
Interest		2,020
Other direct costs		31,937
Indirect Expenses:		
Overhead		592,533
Total Expenses	$	3,918,607

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.

13. DEFINED BENEFIT PENSION PLANS

The School has contracted with WHLS to provide employee services and to pay those employees. (See Note 10.) 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:

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description – WHLS, on behalf of the School, contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

13. DEFINED BENEFIT PENSION PLANS (Continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (Continued)

Funding Policy - 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 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 $33,364, $45,224, $62,824 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – WHLS, on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site 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 a 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 DC Plan and the DB 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 who 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. WHLS on behalf of 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.

WHLS' required contributions on behalf of the School for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $130,888, $120,676, $131,908 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were $0 made by the School and $12,785 made by the plan members.

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. The contribution rate is 6.2 percent of wages. As of June 30, 2008, there were no members that elected Social Security.

14. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Plan Description – WHLS, on behalf of 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 $35,800.

14. POSTEMPLOYMENT BENEFITS (Continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (Continued)

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.

WHLS' contributions on behalf of the School for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $20,719, $17,565, and $17,109 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 $2,404, $2,879, and $3,334 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – WHLS, on behalf of 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 $10,068, $9,283, and $10,147 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

15. CONTINGENCES

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.

16. FEDERAL TAX EXEMPTION STATUS

The School filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code in September 2006.

17. RESTATEMENTS OF NET ASSETS

The fiscal year 2007 financial statements have been restated to correct an error with respect to the amount of capital assets the School had on hand at the end of the 2007 school year. Following is the restated statement of net assets for the School:

Restatements Made to the Statement of Net Assets
As of June 30, 2007

	As Previously Reported	Adjustment	As Restated
Capital Assets, Net	$ 30,667	$ 30,281	$ 60,948
Total Assets	562,211	30,281	592,492
Invested in Capital Assets	30,667	30,281	60,948
Total Net Assets	$ 169,888	$ 30,281	$ 200,169

18. ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2008, the School has implemented GASB Statement No. 45, "Accounting and Financial Reporting for postemployment Benefits Other than Pensions" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representation in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the School; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the School.

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HOPE ACADEMY NORTHWEST CAMPUS
CUYAHOGA COUNTY

FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor *Pass Through Grantor/* **Program Title**	Federal CFDA Number	Revenues	Expenses
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	$110,421	$110,421
School Breakfast Program	10.553	35,190	35,190
Total U.S. Department of Agriculture - Child Nutrition Cluster		145,611	145,611
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Special Education Grants to States (IDEA Part B)	84.027	80,036	80,036
Improving Teacher Quality State Grants	84.367	9,330	9,330
Education Technology State Grants	84.318	3,061	3,061
Grants to Local Educational Agencies (ESEA Title 1)	84.010	311,611	311,611
Innovative Educational Program Strategies	84.298	888	888
Safe and Drug-Free Schools and Communities State Grants	84.186	3,231	3,231
Total U.S. Department of Education		408,157	408,157
Total		$553,768	$553,768

The accompanying notes are an integral part of this schedule.

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared on the full accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - TRANSFERS

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2009, the Ohio Department of Education authorized the following transfers:

CFDA Number	Program Description	Grant Year	Transfer- In	Transfer-Out
84.367	Improving Teacher Quality State Grants	2009	$3,306	
84.367	Improving Teacher Quality State Grants	2008		$3,306

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

To the Board of Directors:

We have audited the financial statements of HOPE Academy Northwest Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009, wherein we noted the School restated its net assets and capital assets due to an error with respect to the amount of capital assets the School had on hand at the end of the 2007 school year. 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 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 School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 School'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 School'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 School'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.

We noted certain matters that we reported to the School's management in a separate letter dated March 31, 2009.

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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*.

We did note a noncompliance or other matter that we reported to the School's management in a separate letter dated March 31, 2009.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, the Community School's Sponsor and federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 31, 2009

Mary Taylor, CPA
Auditor of State

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

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

To the Board of Directors:

Compliance

We have audited the compliance of HOPE Academy Northwest Campus, Cuyahoga County, Ohio, (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying Schedule of Findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

In our opinion, the HOPE Academy Northwest Campus complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to administer a federal program such that there is more than a remote likelihood that the School's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School's management in a separate letter dated March 31, 2009.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 31, 2009

HOPE ACADEMY NORTHWEST
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2008

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Mary Taylor, CPA
Auditor of State

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
JULY 14, 2009