



**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

HOPE Academy Northcoast Campus
Cuyahoga County
4310 E. 71st St.
Cleveland, Ohio 44105

To the Board of Directors:

We have audited the basic financial statements of HOPE Academy Northcoast Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 22, 2005, in which we noted the School adopted Governmental Accounting Standards Board Statement No. 34. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the School's management in a separate letter dated February 22, 2005.

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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the School's management in a separate letter dated February 22, 2005.

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This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by 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

February 22, 2005



Auditor of State Betty Montgomery

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

HOPE Academy Northcoast Campus
Cuyahoga County
4310 E. 71st St.
Cleveland, Ohio 44105

To the Board of Directors:

Compliance

We have audited the compliance of HOPE Academy Northcoast 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 are applicable to its major federal program for the year ended June 30, 2004. The School's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, we noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the School in a separate letter dated February 22, 2005.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Revenues and Expenses of Federal Awards

We have audited the basic financial statement of the School as of and for the year ended June 30, 2004, and have issued our report thereon dated February 22, 2005, in which we noted the School adopted Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Revenues and Expenses of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 22, 2005

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY**

**SCHEDULE OF REVENUES AND EXPENSES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Revenues	Expenses
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	142968-LLP	10.555	\$60,730	\$60,730
School Breakfast Program	142968-05PU	10.553	<u>16,160</u>	<u>16,160</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>76,890</u>	<u>76,890</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	142968-6BSF-2004	84.027	30,567	30,567
Improving Teacher Quality State Grants	142968-TRS1-2004	84.367	13,192	13,192
Education Technology State Grants	142968-TJS1	84.318	7,345	7,345
Grants to Local Educational Agencies (ESEA Title I)	142968-C1S1-2004	84.010	291,255	291,255
Innovative Educational Program	142968-C2S1-2004	84.298	2,697	2,697
Safe and Drug-Free Schools and Communities State Grants	142968-DRS1	84.186	2,579	2,579
<i>Passed Through Ohio School Facilities Commission:</i>				
School Renovation Grants		84.352A	<u>209,400</u>	<u>113,257</u>
Total U.S. Department of Education			<u>557,034</u>	<u>460,892</u>
Totals			<u><u>\$633,924</u></u>	<u><u>\$537,782</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY**

**NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Revenues and Expenses of Federal Awards (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared using the accrual basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

**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

Comprehensive Annual Financial Report

For the Year Ended June 30, 2004



HOPE Academy Northcoast Campus

Cleveland, Ohio

HOPE
ACADEMIES

*There is HOPE
for every child*

**HOPE ACADEMY NORTHCOAST CAMPUS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

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Introductory Section

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February 22, 2005

HOPE Academy Northcoast Campus Community
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the HOPE Academy Northcoast Campus (the School) for the fiscal year ended June 30, 2004. 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.

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.

Background

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

Background (Continued)

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. As of the date of this report, the majority of community schools are sponsored by the Ohio State Board of Education which delegates its responsibility to the Ohio Department of Education to provide oversight and advisory services to 179 community schools throughout the State serving nearly 46,000 children.

Description of the School

Hope Academy Northcoast Campus is an elementary school offering grades K-8. The School, which first opened its doors in August of 2002 is located in Cleveland, Ohio and is run by a four-member Board of Directors. The School looks to its two-year history of consistent enrollment up to capacity as a measure of its success. The School has contracted with White Hat Management, LLC and its subsidiaries to operate the School on a day-to-day basis. White Hat Management is a national leader in professional education management and has managed the School since its inception. Initially approved by the Ohio State Board of Education for a period of five years, the School anticipates renewing with a new sponsor as required (See “Current Financial Issues” in Management’s Discussion and Analysis) for a subsequent term beginning July 1, 2005. The School views renewal of its program as another benchmark of its successful education model, effective operational management, and sound fiscal practices.

Financial Information

This is the first year the School has prepared financial statements following GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” GASB Statement No. 34 creates new basic financial statements for reporting on the School’s financial activities. Also as part of this new reporting model, management is 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 2004 and the outlook for the future.

This is also the first year that the School has prepared a Comprehensive Annual Financial Report. The School takes pride in its demonstrated history of unqualified audit opinions and no material weaknesses and wanted to take the next step towards establishing itself as a model of fiscal responsibility among its peers. According to the Auditor of State of Ohio, the School will be (with the submission of this report) one of the first community schools in the State to pursue the Certificate of Achievement for Excellence in Financial Reporting.

Independent Audit

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, 2004 and the Independent Accountants’ Report on the Basic Financial Statements is included in the Financial Section herein.

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. As the fiscal officer, I would like to express my sincere appreciation to Darryl Woolf, Brett Newsome, and Maggie Vantley for their direct participation in producing this report. Their commitment to this project helped to make this report possible. I would also like to thank Mr. Townsend and other members of the Board of Directors and Finance Committee for their support in this new 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.

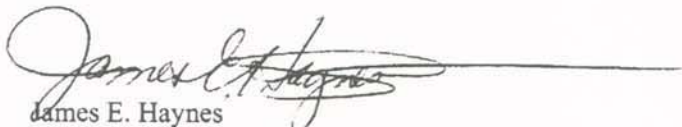
Sincerely,



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



Robert C. Townsend
President, Board of Directors
HOPE Academy Northcoast Campus



James E. Haynes
Finance Committee Chairman
HOPE Academy Northcoast Campus

**HOPE Academy Northcoast Campus
Board of Directors
June 30, 2004**

Robert C. Townsend	Board President
James Haynes	Board Member
Bert Holt	Board Member
Edward D. Wilkins, Sr.	Board Member

Financial Section

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

HOPE Academy Northcoast Campus
Cuyahoga County
4310 E. 71st St.
Cleveland, Ohio 44105

To the Board of Directors:

We have audited the accompanying basic financial statements of the HOPE Academy Northcoast Campus, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 financial position of HOPE Academy Northcoast Campus, Cuyahoga County, as of June 30, 2004, and the changes in its financial position 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 2, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form an opinion on the School's basic financial statements. The introductory section and statistical tables are presented for additional analysis and are not a required part of the basic financial statements. We did not subject the introductory section and statistical tables 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

February 22, 2005

**HOPE ACADEMY NORTHCOAST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Unaudited)**

The discussion and analysis of the HOPE Academy Northcoast Campus's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. 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 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 new reporting model adopted by the Governmental Accounting Standard 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 \$234,946, which represents a 737 percent increase from 2003. This was primarily the result of the School taking on additional capital assets during the year related to its participation in the Federal Emergency Repair Program (FERP), which allowed the School to replace and/ or improve some areas of its current facility.
- Total assets increased \$322,964, which represents a 158 percent increase from 2003. An increase in the School's overall receivables and its capital assets were the primary reasons for this change.
- Liabilities increased \$88,018, which represents a 43.1 percent increase from 2003. 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 NORTHCOAST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Unaudited)**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2004. 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 2004 and fiscal year 2003

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	\$ 446,554	\$ 236,050
Noncurrent Assets	112,460	-
Total Assets	559,014	236,050
Liabilities		
Current Liabilities	\$ 292,194	\$ 204,176
Net Assets		
Invested in Capital Assets	112,460	-
Unrestricted Net Assets	154,360	31,874
Total Net Assets	\$ 266,820	\$ 31,874

Total assets increased \$322,964. 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, additional federal and state grants. Liabilities increased by \$88,018 from 2003. 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 NORTHCOAST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Unaudited)**

Statement of Revenues, Expenses, and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenues		
State Aid	\$ 1,945,715	\$ 1,681,451
Non-Operating Revenues		
Grants	529,428	451,935
Interest	859	-
Other	500	-
Total Revenues	<u>2,476,502</u>	<u>2,133,386</u>
Operating Expenses		
Purchased Services: Management Fees	1,887,343	1,631,010
Purchased Services: Grant Programs	330,027	451,934
Legal	7,770	5,976
Advertising	-	3,047
Insurance	5,032	6,650
Auditing and Accounting	5,171	-
Depreciation	797	-
Board of Education	4,912	2,515
Miscellaneous	504	380
Total Expenses	<u>2,241,556</u>	<u>2,101,512</u>
Increase in Net Assets	<u>\$ 234,946</u>	<u>\$ 31,874</u>

The primary reason for the increase in both operating and non-operating revenues from 2003 was due to increases in student 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 9.)

**HOPE ACADEMY NORTHCOAST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Unaudited)**

Capital Assets

At the end of fiscal year 2004 the School had \$112,460, in leasehold improvements and construction-in-progress, which represented an increase of \$112,460 from 2003. Table 3 shows fiscal year 2004.

(Table 3)
**Capital Assets
(Net of Depreciation)**

	2004
Leasehold Improvements	\$ 23,102
Construction-in-Progress	89,358
Totals	\$ 112,460

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

Current Financial Issues

The HOPE Academy Northcoast Campus received revenue for 300 students in 2004 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from State Aid. Per pupil revenue for the School in fiscal year 2004 averaged \$6,486 with a 2.2 percent increase planned in fiscal year 2005.

Further, with the enactment of House Bill 364 into law in April 2003, the Ohio Department of Education (ODE) will no longer be sponsoring community schools. The law provides that every community school sponsored by ODE, including HOPE Academy Northcoast Campus, will be required to have new sponsorship in place by June 30, 2005. The School is currently evaluating qualified sponsors. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that has not been incurred through the sponsorship by ODE. The fee will range between 0-3 percent. It has not been decided if this fee will be paid by the Board or result in a direct reduction of the fee paid to the management company.

**HOPE ACADEMY NORTHCOAST CAMPUS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Unaudited)**

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 Northcoast Campus, 159 South Main Street, Akron, Ohio 44308 or e-mail at david.massa@whitehatmgmt.com.

**HOPE ACADEMY NORTHCOAST CAMPUS
 CUYAHOGA COUNTY
 STATEMENT OF NET ASSETS
 AS OF JUNE 30, 2004**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 194,152
State Funding Receivable	32,925
Accounts Receivable	2,354
Grants Funding Receivable	<u>217,123</u>

Total Current Assets 446,554

Noncurrent Assets

Nondepreciable Capital Assets	89,358
Depreciable Capital Assets, Net	<u>23,102</u>

Total Noncurrent Assets 112,460

Total Assets \$ 559,014

LIABILITIES

Current Liabilities

Accounts Payable	\$ 79,389
Grants Funding Payable	180,868
Continuing Fees Payable	<u>31,937</u>

Total Current Liabilities \$ 292,194

NET ASSETS

Invested in Capital Assets	\$ 112,460
Unrestricted Net Assets	<u>154,360</u>

Total Net Assets \$ 266,820

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

**HOPE ACADEMY NORTHCOAST CAMPUS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENSE, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2004**

OPERATING REVENUE

State Aid	\$ 1,945,715
Total Operating Revenue	1,945,715

OPERATING EXPENSES

Purchased Services: Management Fees	1,887,343
Purchased Services: Grant Programs	330,027
Legal	7,770
Insurance	5,032
Auditing and Accounting	5,171
Depreciation	797
Board of Education	4,912
Miscellaneous	504
Total Operating Expenses	2,241,556
Operating Loss	(295,841)

NON-OPERATING REVENUES

Grants	529,428
Contributions	500
Interest Income	859
Total Non-Operating Revenues	530,787
Change in Net Assets	234,946
Net Assets, July 1, 2003	31,874
Net Assets, June 30, 2004	\$ 266,820

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

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Sources	\$ 1,932,967
Cash Payments to Suppliers for Goods and Services	<u>(2,209,457)</u>
Net Cash Used for Operating Activities	(276,490)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital Expenses	(38,562)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grant Programs	491,359
Cash Received from Miscellaneous Receipts	<u>1,359</u>
Net Cash Received from Noncapital Financing Activities	<u>492,718</u>
Net Increase in Cash and Cash Equivalents	177,666
Cash and Cash Equivalents at Beginning of Year	<u>16,486</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 194,152</u></u>

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

Operating Loss	\$ (295,841)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	797
Changes in Assets and Liabilities:	
State Funding Receivable	(12,750)
Refund Receivable	20,333
Accounts Receivable	(2,354)
Accounts Payable	3,052
Grants Funding Payable	(2,092)
Continuing Fees Payable	<u>12,365</u>
Total Adjustments	<u>19,351</u>
Net Cash Used for Operating Activities	<u><u>\$ (276,490)</u></u>

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

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hope Academy Northcoast 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 9.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years from May 16, 2000, through June 30, 2005. The School operates under a self-appointing, four-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 300 students. The Board also operates the Life Skills Center of Summit County in the city Akron and the Life Skills Center of Northeast Ohio, Life Skills Center of Lake Erie, HOPE Academy Cuyahoga County Campus, and HOPE Academy East Campus 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. Also, the School implemented GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This had no effect on the School's net assets. The more significant of the School's accounting policies are described on the following pages.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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 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.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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 and STAROhio. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

During fiscal year 2004, investments were limited to the State Treasurer's Investment Pool, STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

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 2004 school year totaled \$2,475,143.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$797. Depreciation is computed by the straight-line method over ten years for "Leasehold Improvements".

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with WHLS. (See Note 9.)

G. USE OF ESTIMATES

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. NET ASSETS

Net assets represent the difference between assets and liabilities. Net Assets consist of capital assets, net of accumulated depreciation, and unrestricted net assets.

I. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily State Aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS

GASB Statement No. 3 “Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements” requires that the School’s investments be classified in categories of custodial credit risk.

Deposits: At year-end, the carrying amount of the School’s deposits was \$2,704 and the bank balance was \$2,704. Of that amount, all funds were insured and collateralized by the Federal Depository Insurance Corporation.

Investments: Category 1 includes investments that are insured or registered or for which the securities are held by the School or its agent in the School’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the School’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the School’s name.

The carrying amount of the School’s investment in STAROhio at June 30, 2004, was \$191,448. Investments in STAROhio are not evidenced by securities that exist in physical or book entry form; therefore, are not categorized.

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, 2004, the amount of “State Funding Receivable” was \$32,925.

5. CONTINUING FEES PAYABLE

Under the terms of the management agreement with WHLS (See Note 9.), a related “Continuing Fees Payable” in the amount of \$31,937 has been recorded by the School for 97 percent of the amount of “State Funding Receivable” due from the State. (See Note 4.)

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

6. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$217,123 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2004.

Additionally, under the terms of the management agreement (See Note 9.), the School has recorded a liability to WHLS in the amount of \$180,868 for 100 percent of any State and Federal monies uncollected or unpaid to WHLS as of June 30, 2004

7. CAPITAL ASSETS AND DEPRECIATION

For the year ended June 30, 2004, the School's capital assets consisted of the following:

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/04</u>
Capital Assets Not Being Depreciated:				
Construction-In-Progress	<u>\$0</u>	<u>\$89,358</u>	<u>\$0</u>	<u>\$89,358</u>
Capital Assets Being Depreciated:				
Leasehold Improvements	<u>0</u>	<u>23,899</u>	<u>0</u>	<u>23,899</u>
Total Capital Assets Being Depreciated	<u>0</u>	<u>23,899</u>	<u>0</u>	<u>23,899</u>
Less Accumulated Depreciation:				
Leasehold Improvements	<u>0</u>	<u>(797)</u>	<u>0</u>	<u>(797)</u>
Total Accumulated Depreciation	<u>0</u>	<u>(797)</u>	<u>0</u>	<u>(797)</u>
Total Capital Assets Being Depreciated, Net	<u>0</u>	<u>23,102</u>	<u>0</u>	<u>23,102</u>
Business-Type Activity Capital Assets, Net	<u>\$0</u>	<u>\$112,460</u>	<u>\$0</u>	<u>\$112,460</u>

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

8. RISK MANAGEMENT

Property and Liability - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHLS, WHLS has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past two years. (See Note 9.)

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

9. AGREEMENT WITH WHLS

Effective November 30, 2001, 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 (the School Board) for the administration, operation and performance of the School in accordance with the School's contract with the Ohio State Board of Education to operate the School. The School had purchased service expenses for the year ended June 30, 2004, to WHLS of \$2,217,370 and payables to WHLS at June 30, 2004, aggregating \$212,805. Significant provisions of the Agreement are as follows:

Financial Provisions

Management, Consulting, and Operation Fee. 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.

Other School Financial Responsibilities. The School is responsible for its directors' and officers' insurance, legal fees for School Board representation and general corporate matters, accounting, audit, tax and consulting fees for the School, and other miscellaneous expenses not incurred in the normal day-to-day operation of the School.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

9. AGREEMENT WITH WHLS (Continued)

WHLS Financial Responsibilities. Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by WHLS. Such costs include, but are not limited to, salaries and benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the School is the property of WHLS, unless purchased directly by the School with Federal funds.

WHLS is required to maintain, at WHLS' expense, commercial general liability insurance in the name of the School in an amount not less than \$1 million per occurrence and \$2 million in the aggregate, and excess umbrella liability insurance of not less than \$10 million per occurrence and \$15 million in the aggregate.

Personnel. WHLS has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer and terminate personnel, consistent with state and federal law and the Agreement.

Compensation and benefits of all employees of the School is paid by WHLS. If WHLS fails to pay this compensation, the School, in its sole discretion, may pay such compensation and offset the amount by withholding an equal amount from the fees owed to WHLS under the Agreement.

Agreement Termination

Termination by the School. The School may terminate the Agreement in the event WHLS materially breaches the Agreement or the School's contract with the Ohio State Board of Education to operate the School and WHLS does not cure the material breach within 90 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 90 days, in which case the WHLS shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

Termination by WHLS. WHLS may, at its option, terminate the Agreement upon the occurrence of certain events as defined in the Agreement.

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 9.)

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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, 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 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 contributions for pension obligations to SERS for the year ended June 30, 2004 and 2003 were \$37, 488 and \$23,490, respectively; of which 100 percent has been contributed.

B. STATE TEACHERS RETIREMENT SYSTEM

WHLS, on behalf of the School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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, 2004, 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 contributions for pension obligations for the fiscal years ended June 30, 2004, and 2003 were \$88,668 and \$56,133, respectively; of which 100 percent has been contributed.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$6,821 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the 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 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and member's pay, pro-rated for partial credit. For fiscal year 2004, the minimum pay was established at \$25,400. 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 at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

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. For the School, the amount to fund health care benefits, including surcharge, equaled \$26,571 during the 2004 fiscal year.

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 disallowed claims 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 effect of this suit, if any on the Hope Academy Northcoast 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 funding is calculated. The conclusions of this review could result in state funding being adjusted.

In January 2005, the Ohio Department of Education proposed adjustments to the School, which are currently being reviewed. However, in the opinion of the School, these adjustments will not have a material adverse effect on the financial position of the School.

**HOPE ACADEMY NORTHCOAST CAMPUS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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 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".

15. SUBSEQUENT EVENT

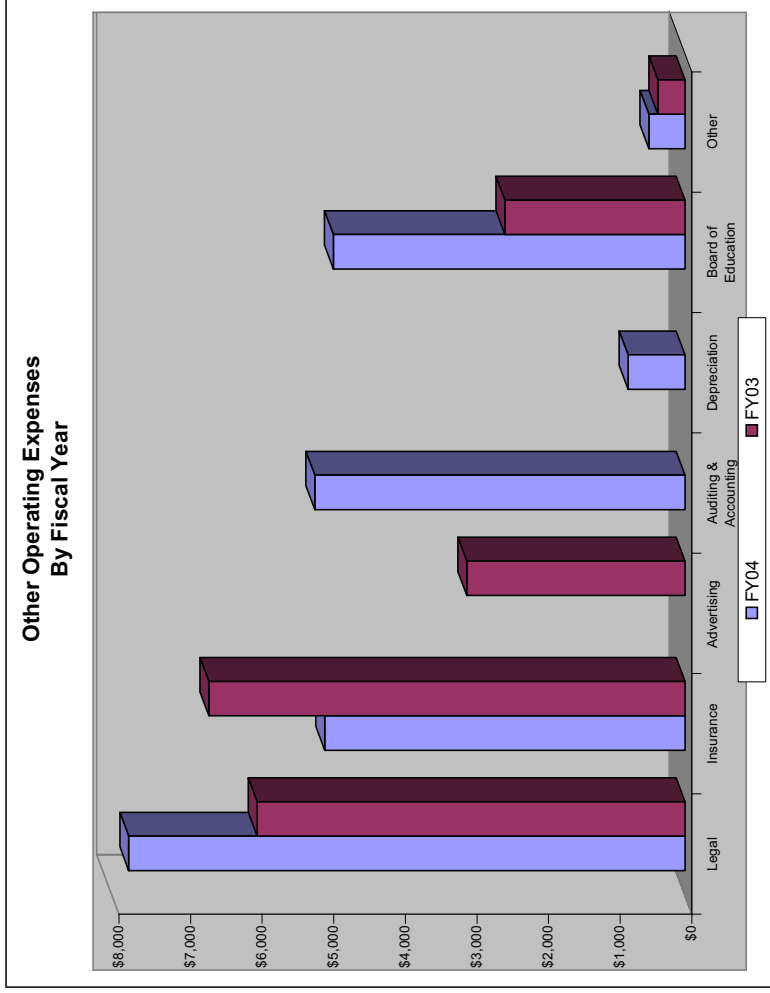
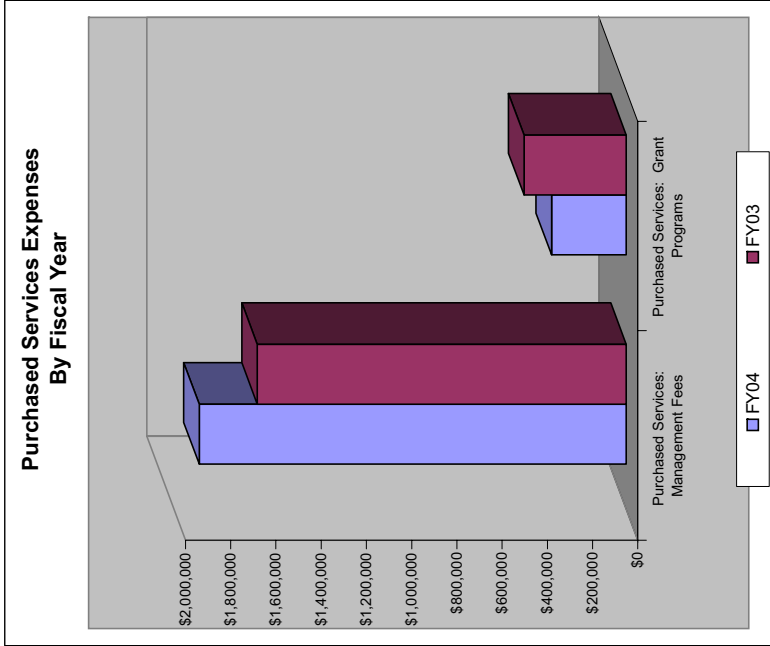
In August 2004, the School filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

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Statistical Section

**HOPE Academy Northcoast Campus
Operating Expenses by Category
Last Two Fiscal Years**

Year	Purchased Services: Management Fees		Purchased Services: Grant Programs		Legal	Insurance	Advertising	Auditing & Accounting		Depreciation	Board of Education		Other	Total	FTE Enrollment	Per Pupil Expenditure
	Fees	Programs	Fees	Programs				Accounting	Education							
2004	\$ 1,887,343	\$ 330,027	\$ 7,770	\$ 5,032	\$ -	\$ 797	\$ 4,912	\$ 5,171	\$ 797	\$ 504	\$ 4,912	\$ 504	\$ 2,241,556	300	\$ 7,472	
2003	\$ 1,631,010	\$ 451,934	\$ 5,976	\$ 6,650	\$ 3,047	\$ -	\$ 2,515	\$ -	\$ -	\$ 380	\$ 2,515	\$ 380	\$ 2,101,512	286	\$ 7,348	

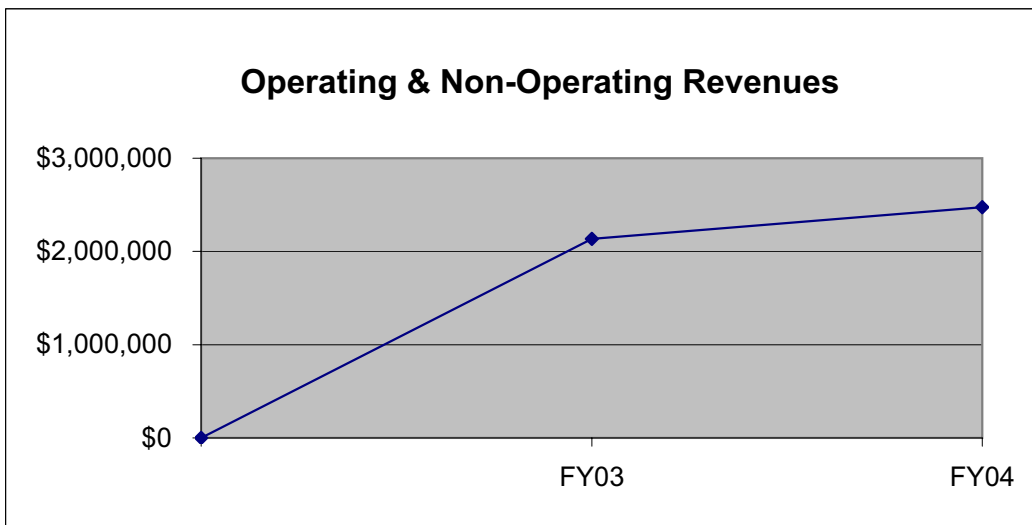


Note: The School began enrolling students in FY03.

Source: School Financial Records

**HOPE Academy Northcoast Campus
Operating and Non-Operating Revenues
Last Two Fiscal Years**

<u>Year</u>	<u>State Aid</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
2004	\$ 1,945,715	\$ 529,428	\$ 1,359	\$ 2,476,502
2003	\$ 1,681,451	\$ 451,935	\$ -	\$ 2,133,386

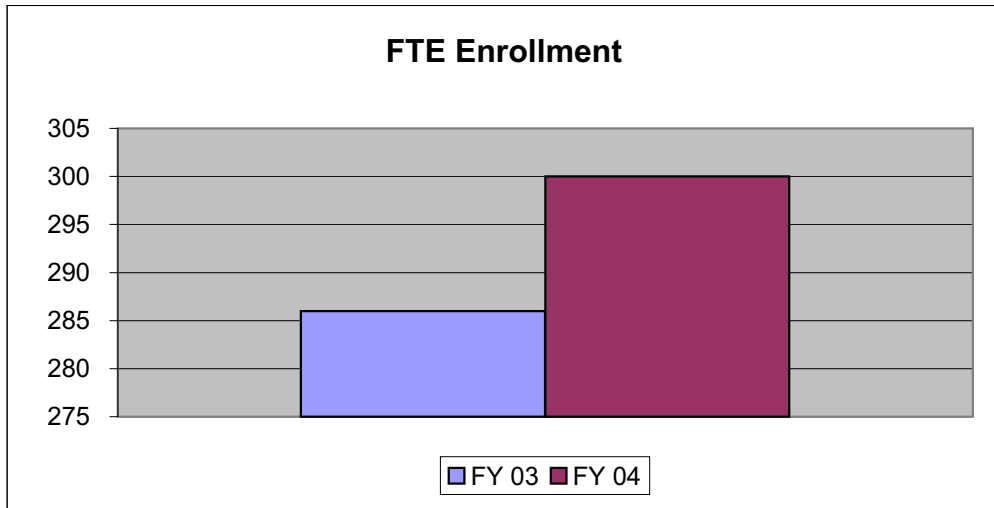


Note: The School began enrolling students in FY03.

Source: School Financial Records

**HOPE Academy Northcoast Campus
Full-Time Equivalent (FTE) Enrollment
Last Two Fiscal Years**

<u>Year</u>	<u>Enrollment</u>
2004	300
2003	286

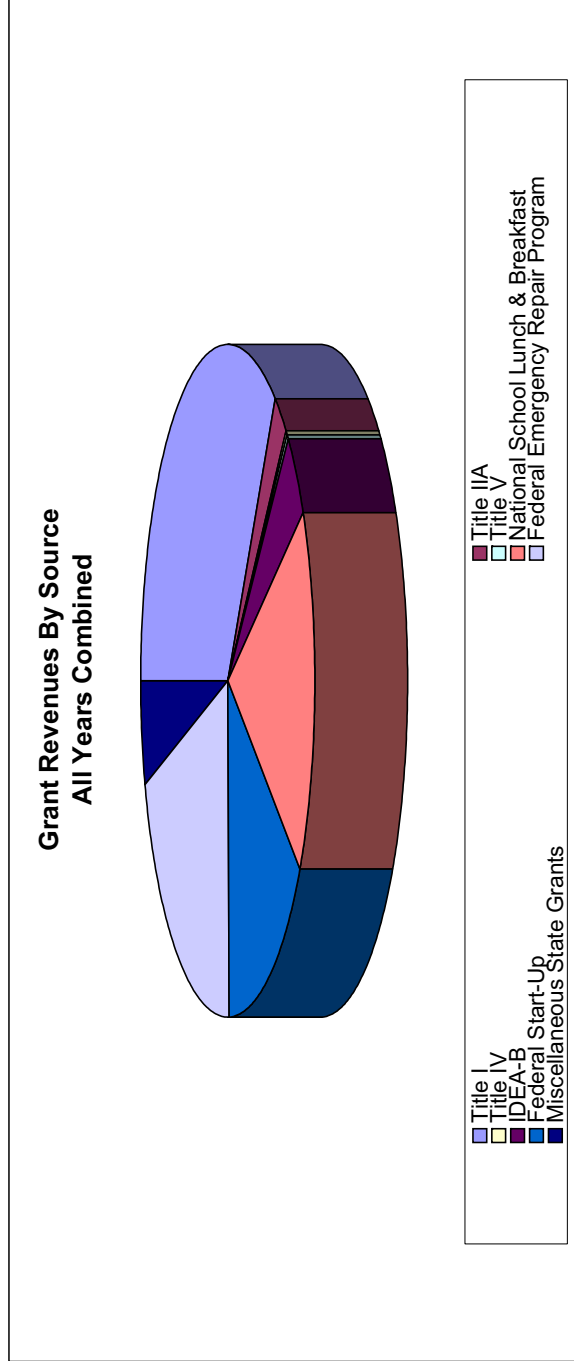


Note: The School began enrolling students in FY03.

Source: School Financial Records

**HOPE Academy Northcoast Campus
Grant Revenues By Source
Last Two Fiscal Years**

Year	Title I	Title IIA	Title IV	Title V	National School Lunch & Breakfast	IDEA-B	Federal Start-Up	Federal Emergency Repair Program	Miscellaneous State Grants	Total
2004	\$ 181,716	\$ 13,756	\$ 655	\$ 2,005	\$ 82,548	\$ 30,568	\$ -	\$ 199,400	\$ 18,780	\$ 529,428
2003	\$ 152,378	\$ 11,766	\$ 2,418	\$ 692	\$ 90,961	\$ 13,020	\$ 150,000	\$ -	\$ 30,700	\$ 451,935

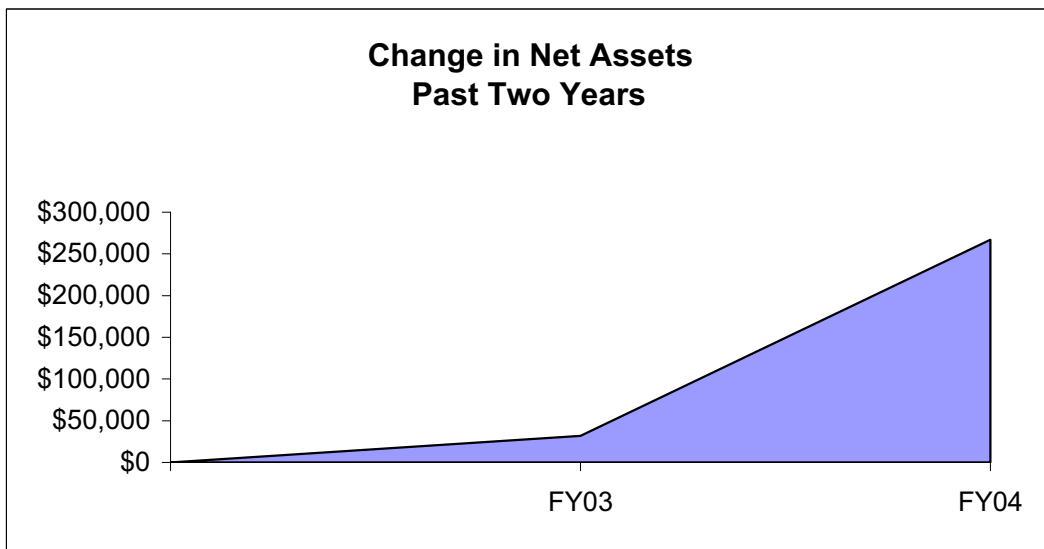


Note: The School began enrolling students in FY03.

Source: School Financial Records

HOPE Academy Northcoast Campus
Net Assets
Last Two Fiscal Years

<u>Year</u>	<u>Invested in Capital Assets</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Change in Net Assets</u>
2004	\$ 112,460	\$ 154,360	\$ 266,820	\$ 234,946
2003	\$ -	\$ 31,874	\$ 31,874	\$ 31,874

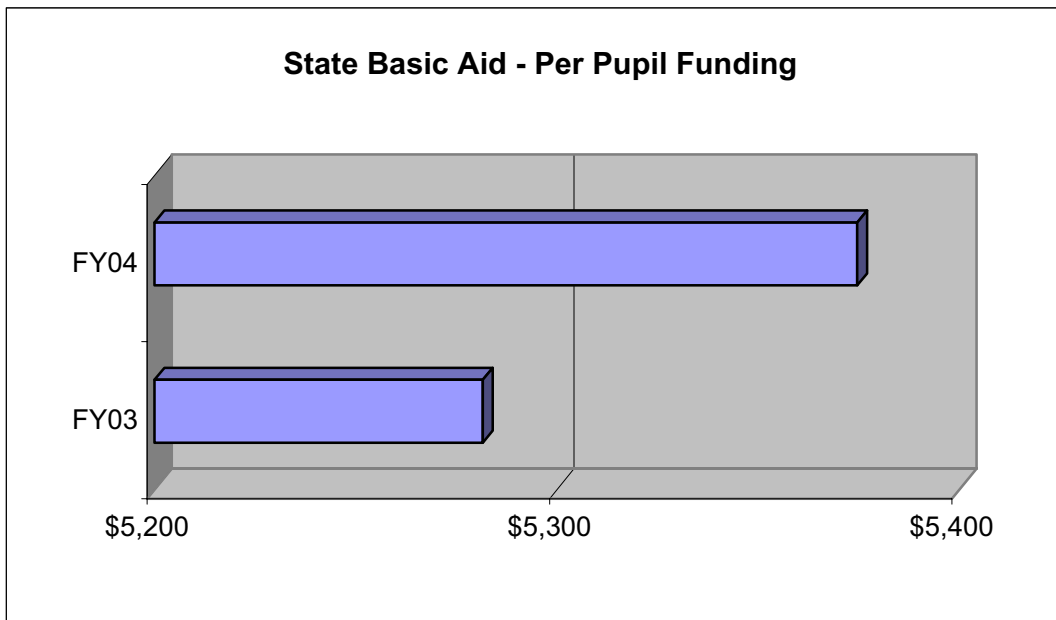


Note: The School Began enrolling students in FY03.

Source: School Financial Records

**HOPE Academy Northcoast Campus
State Basic Aid - Per Pupil Funding Amount
Last Two Fiscal Years**

<u>Year</u>	<u>Per Pupil Funding</u>	<u>Cost of Doing Business Factor</u>	<u>Total Per Pupil Funding</u>
2004	\$ 5,058	1.0626	\$ 5,375
2003	\$ 4,949	1.0672	\$ 5,282



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 FY03.

Source: Ohio Department of Education

**HOPE Academy Northcoast Campus
Student Population by Resident District
Fiscal Year 2004**

<u>Resident District</u>	<u>%</u>
Cleveland Public Schools	98.21%
All Other Districts	1.79%

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".

Districts representing less than 2 percent of the student population have been combined under the heading "All Other Districts".

Source: Ohio Department of Education website.

**HOPE Academy Northcoast Campus
Miscellaneous Statistics**

School Address: 4310 East 71st Street
Cleveland, OH 44105

Square Footage: 20,054 sq. ft.

Date of Incorporation: 1/17/2002

**Number of FY04
Instructional Staff:** 30

Total FY04 Staff: 40

**Student / Instructional
Staff Ratio:** 10:1

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

Source: School Records



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**HOPE ACADEMY NORTHCOAST 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
MARCH 24, 2005**