

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY
AUDITED FINANCIAL STATEMENTS
AS OF MAY 26, 2011 AND FOR THE PERIOD JULY 1, 2010
THROUGH MAY 26, 2011**

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Dave Yost • Auditor of State

Board of Directors
Hope Academy Cathedral Campus
10615 Lamontier Avenue
Cleveland, Ohio 44104

We have reviewed the *Independent Auditor's Report* of the Hope Academy Cathedral Campus, Summit County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through May 26, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hope Academy Cathedral Campus is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 29, 2012

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HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY
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FOR THE PERIOD ENDED MAY 26, 2011

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December 15, 2011

To The Board of Directors
Hope Academy Cathedral Campus
10615 Lamontier Ave.
Cleveland, Oh 44104

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Hope Academy Cathedral Campus (the School), as of May 26, 2011 and for the period July 1, 2010 through May 26, 2011, which collectively comprise the School's basic financial statements 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 respective financial position of Hope Academy Cathedral Campus, as of May 26, 2011 and for the period July 1, 2010 through May 26, 2011, and the respective changes in financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, the School ceased operations on May 26, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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. 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.

Hea & Associates, Inc.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED MAY 26, 2011
(Unaudited)**

The discussion and analysis of the Hope Academy Cathedral Campus' (the School) financial performance provides an overall review of the School's financial activities for the fiscal period ended May 26, 2011. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

- In total, net assets decreased \$98,307 which represents an 11.5 percent decrease from 2010. This decrease is due increased operating expenses for sponsorship, legal, and other professional services.
- Total assets increased \$501,506, which represents a 51.4 percent increase from 2010. This was primarily due to an increase in state funding receivable and grant receivable from the previous year.
- Liabilities increased \$599,813, which represents a 502.1 percent increase from 2010. The increase in liabilities is corresponding continuing fee and grant payables due to the management company.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The School uses enterprise presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2011. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED MAY 26, 2011
(Unaudited)**

Table 1 provides a summary of the School's net assets for the period ended May 26, 2011 and fiscal year 2010.

(Table 1)
Statement of Net Assets

	2011	2010
Assets		
Current Assets	\$1,469,832	\$ 945,642
Capital Assets, Net	7,281	29,965
Total Assets	1,477,113	975,607
Liabilities		
Current Liabilities	719,268	119,455
Net Assets		
Investment in Capital Assets	7,281	29,965
Unrestricted	750,564	826,187
Total Net Assets	\$ 757,845	\$ 856,152

Total assets increased \$501,506, which represents a 51.4 percent increase from 2010. This was primarily due to an increase in state funding receivable and grant receivable from the previous year. Liabilities increased \$599,813, which represents a 502.1 percent increase from 2010. The increase in liabilities is corresponding continuing fee and grant payables due to the management company.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for the period ended May 26, 2011 and fiscal year 2010, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the school as a whole, the financial position of the school has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED MAY 26, 2011
(Unaudited)**

(Table 2)
Change in Net Assets

	2011	2010
Operating Revenues		
State Aid	\$ 3,502,102	\$3,837,462
Non-Operating Revenue		
Grants	1,494,894	1,658,044
Interest Income	4,133	9,824
Miscellaneous Non-Operating Revenue	504	2,102
Total Revenues	5,001,633	5,507,432
Operating Expenses		
Purchased Services: Management Fees	3,362,018	3,649,810
Purchased Services: Grant Programs	1,494,894	1,658,044
Sponsorship Fees	105,170	19,187
Legal	34,092	37,208
Auditing & Accounting	23,516	27,162
Insurance	1,936	1,909
Board of Education	6,768	17,318
Depreciation	16,056	101,538
Professional Services	29,983	40,085
Miscellaneous	18,879	6,585
Non-Operating Expenses		
Loss on Disposition/Sale of Asset	6,628	166,667
Total Expenses	5,099,940	5,725,513
 Change in Net Assets	 \$ (98,307)	 \$ (218,081)

The primary reason for the decrease in revenues from 2011 was the decrease in students from 546 in fiscal year 2010 to 510 in fiscal year 2011. 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 Notes to the Basic Financial Statements, Note 7)

Budgeting Highlights

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

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED MAY 26, 2011
(Unaudited)**

Capital Assets

For the period ended May 26, 2011 the School had \$7,281, invested in Computers and Equipment, which represented a decrease of \$22,684 from 2010 as shown in Table 3 below.

(Table 3)

Capital Assets (Net of Depreciation)

	<u>2011</u>	<u>2010</u>
Computers and Equipment	\$ 7,281	\$ 22,056
Leasehold Improvements	-	7,909
	<u>\$ 7,281</u>	<u>\$ 29,965</u>

For more information on capital assets, see Note 5 in the Notes to the Basic Financial Statements.

Current Financial Issues

The Hope Academy Cathedral Campus received revenue for 510 students in 2011 (a decrease from 2010 of 36. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$6,867 in fiscal year. The School receives additional revenues from grant subsidies.

In June of 2010, the School contracted with Buckeye Community Hope Foundation (BCHF) for the period (ending May 26, 2011) to be its sponsor. The school will pay BCHF three percent of State Aid as its sponsorship fee in fiscal year 2011.

The Ohio Department of Education has terminated the School's charter effective May 26, 2011 for not meeting academic performance measures pursuant to Ohio Revised Code.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Brian G. Adams, Fiscal Officer for the Hope Academy Cathedral Campus, 65 E. Wilson Bridge Road, Worthington, OH 43085 or e-mail at badams@ocscltd.com.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**STATEMENT OF NET ASSETS
MAY 26, 2011**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 907,209
Accounts Receivable	1,223
State Funding Receivable	289,809
Grants Funding Receivable	271,356
Receivable from Schools	<u>235</u>

Total Current Assets 1,469,832

Noncurrent Assets

Depreciable Capital Assets, net 7,281

Total Assets 1,477,113

LIABILITIES

Current Liabilities

Accounts Payable	6,952
Grants Funding Payable	450,032
Continuing Fees Payable	253,078
Sponsor Fee Payable	8,796
Payable to Schools	<u>410</u>

Total Liabilities 719,268

NET ASSETS

Investment in Capital Assets 7,281
Unrestricted 750,564

Total Net Assets \$ 757,845

See accompanying notes to the basic financial statements

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE PERIOD ENDED MAY 26, 2011**

OPERATING REVENUES

State Aid \$ 3,502,102

OPERATING EXPENSES

Purchased Services: Management Fees 3,362,018
Purchased Services: Grant Programs 1,494,894
Sponsorship Fees 105,170
Legal 34,092
Auditing and Accounting 23,516
Insurance 1,936
Board of Education 6,768
Depreciation 16,056
Professional Services 29,983
Miscellaneous 18,879

Total Operating Expenses 5,093,312

Operating Loss (1,591,210)

NON-OPERATING REVENUE/EXPENSES

Grants 1,494,894
Interest Income 4,133
Miscellaneous Income 504
Loss on Disposition of Assets (6,628)

Total Non-Operating Revenue 1,492,903

Change in Net Assets (98,307)

Net Assets Beginning of Year 856,152

Net Assets End of Year \$ 757,845

See accompanying notes to the basic financial statements

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED MAY 26, 2011**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 3,212,293
Cash Payments to Suppliers for Goods and Services	<u>(4,459,459)</u>

Net Cash Used for Operating Activities	<u>(1,247,166)</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grants	1,314,688
Other Cash Received	<u>504</u>

Net Cash Provided by Noncapital Financing Activities	<u>1,315,192</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest on Investments	<u>4,133</u>
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Net Increase in Cash and Cash Equivalents	72,159
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Cash and Cash Equivalents Beginning of Year	<u>835,050</u>
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Cash and Cash Equivalents End of Year	<u>\$ 907,209</u>
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**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss	\$(1,591,210)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	16,056
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(Increase) Decrease in Assets and Liabilities:

Accounts Receivable	(503)
State Funding Receivable	(289,809)
Receivable from Schools	699
Accounts Payable	(2,384)
Grant Funding Payable	358,882
Continuing Fees Payable	253,078
Sponsor Fee Payable	8,796
Payable to Schools	<u>(771)</u>

Net Cash Used for Operating Activities	<u>\$(1,247,166)</u>
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See accompanying notes to the basic financial statements

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**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hope Academy Cathedral Campus (the School) is a federal 501(c)(3), 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 HA Cathedral Campus, LLC, a Nevada limited liability company, for most of its functions. WHLS of Ohio, LLC, a Nevada limited liability company ("WHLS") dba White Hat Management Company, is the sole member of HA Cathedral Campus, LLC and is the entity with which the School's board interacts regarding day-to-day operations (see Note 7 for details).

The School was originally approved for operation under contract with the Ohio State Board of Education for a period of five years from August 20, 1998 through May 26, 2003. The contract was subsequently renewed for a two year period from July 1, 2003 through May 26, 2005. Effective July 1, 2005, House Bill 364 required schools sponsored by the Ohio Department of Education to have sponsorship in place by June 30, 2005. The School signed a contract with Ohio Council of Community Schools (Sponsor), to operate for a period from July 1, 2005 through June 30, 2010. The school signed an agreement with Buckeye Community Hope Foundation beginning July 1, 2010 through May 26, 2011.

The School operates under a self-appointing, five-member Board of Directors (the Board). The School's Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The facility is staffed with teaching personnel employed by WHLS, who provide services to 510 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract. In addition, the Board adopted an operating budget at the beginning of fiscal year 2011. 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 demand deposit accounts, a money market account, certificates of deposit, 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 2011, 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 May 26, 2011.

E. Intergovernmental Revenues

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

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts awarded under the above programs for the 2011 school year totaled \$4,996,996.

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 \$7,281. Depreciation is computed by the straight-line method over five years for "Equipment", five years for "Furniture and Fixtures", and 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 7)

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 CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At May 26, 2011, the carrying amount of all School deposits was \$753,286 and it's bank balance of \$753,286. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of May 26, 2011, \$503,286 of the School's bank balance of \$753,286 was exposed to custodial risk as discussed below. \$250,000 of the bank balance was covered by the Federal Deposit Insurance Corporation as the total bank balance was deposited in multiple financial institutions.

The investment and deposit of the School's monies is governed by the provisions of the ORC. In accordance with these statutes, the School is authorized to invest in United Sates and State of Ohio bonds, notes, and other obligations; bank certificates of deposit and STAR Ohio.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School has no deposit policy for custodial credit risk beyond the requirements of state statute. According to state law, public depositories must give security for all public funds on deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. State law does not require security for public deposits and investments to be maintained in the School's name. During 2011, the School and public depositories complied with the provisions of these statutes.

B. Investments

As of May 26, 2011, the School had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 12 months</u>
STAROhio	\$153,923	\$153,923	\$ -	\$ -

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: The School's investments at May 26, 2011 in StarOhio are rated AAA by Standard & Poor's. Investments in Star Ohio are rated AAAM by Standard & Poor's. .

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 May 26, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent to Total</u>
STAROhio	\$ 153,923	100.00

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

4. GRANTS FUNDING RECEIVABLE/PAYABLE

The School has recorded "Grants Funding Receivable" in the amount of \$271,356 to account for the remainder of State and Federal awards allocated to the School, but not received as of May 26, 2011.

Additionally, under the terms of the management agreement (See Net Assets), the School has recorded a liability to WHLS in the amount of \$450,032 for 100 percent of any State and Federal Grant monies uncollected or unpaid to WHLS as of May 26, 2011.

5. CAPITAL ASSETS AND DEPRECIATION

For the period ended May 26, 2011, the School's capital assets consisted of the following:

Capital Assets Being Depreciated	<u>Balance 06/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 05/26/11</u>
Computers and Equipment	\$ 124,376	\$ -	\$ (48,000)	\$ 76,376
Furniture and Fixtures	37,841	-	-	37,841
Leasehold Improvements	<u>413,133</u>	<u>-</u>	<u>(24,975)</u>	<u>388,158</u>
Total Assets Being Depreciated	<u>575,350</u>	<u>-</u>	<u>(72,975)</u>	<u>502,375</u>
Less: Accumulated Depreciation				
Computers and Equipment	(102,320)	(13,975)	47,200	(69,095)
Furniture and Fixtures	(37,841)	-	-	(37,841)
Leasehold Improvements	<u>(405,224)</u>	<u>(2,082)</u>	<u>19,148</u>	<u>(388,158)</u>
Total Assets Being Depreciated	<u>(545,385)</u>	<u>(16,057)</u>	<u>66,348</u>	<u>(495,094)</u>
Capital Assets Being Depreciated, net	<u>\$ 29,965</u>	<u>\$ (16,057)</u>	<u>\$ (6,627)</u>	<u>\$ 7,281</u>

6. 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 (See Note 7). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

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

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

7. AGREEMENT WITH WHLS

Effective November 1, 2005, the School entered into a multi-year Management Agreement (Agreement) with WHLS (through its subsidiary HA Cathedral, LLC), which is an educational consulting and management company. The Agreement's term ran through June 30, 2010, and renewed under court agreed order through the period ended May 26, 2011. 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 day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 96 percent. "Continuing Fees" are defined in the Agreement as, "...the revenue per student received by the School from the State of Ohio Department of Education pursuant to Title 33 and other provisions of the Ohio Revised Code...". With regard to grant funding, the agreement reads as follows: "Federal Title Programs, lunch programs revenue, and other such federal, state and local government grant funding designated to compensate the school for the education of its students shall be fully paid to the Company." The continuing fee is paid to WHLS based on the previous month's qualified gross revenues. As such, WHLS receives 96 percent of "State Aid" (See Note 2 E) and 100 percent of all other federal, state, and local grants. The School retains 4 percent of the "State Aid" as well as miscellaneous revenues generated from interest on deposits and donations.

The School had purchased service expenses for the period ended May 26, 2011, to WHLS of \$4,856,912 and payables to WHLS at May 26, 2011 aggregating to \$450,032. WHLS is 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.

8. STATE FUNDING RECEIVABLE

The School has recognized on its Statement of Net Assets a "State Funding Receivable" for the amount of State Aid directly related to FTE, paid in June 2011 to the School from the Ohio Department of Education (ODE) based on the School meeting its contractual student hours of teaching. At May 26, 2011, the amount of "State Funding Receivable" was \$289,809.

9. CONTINUING FEES PAYABLE

A "Continuing Fees Payable to WHLS has been recorded by the School in the amount of \$253,078 for 96 percent of the "State Funding Receivable" due from the State. (See Note 8)

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

10. MANAGEMENT COMPANY EXPENSES

For the period ended June 30, 2011, White Hat Ventures, LLC and its affiliates incurred the following expenses on behalf of the School.

	2011
Expenses	
Direct Expenses:	
Salaries & wages	\$ 1,779,249
Employees' benefits	642,224
Professional & technical services	464,549
Property services	343,811
Travel	2,272
Communications	4,286
Utilities	154,789
Books, periodicals, & films	37,030
Food & Related Supplies	167,488
Other supplies	97,465
Depreciation	120,645
Other direct costs	180,864
Indirect Expenses:	
Overhead	515,842
Total Expenses	\$ 4,510,514

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.

11. 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 7)

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System

Plan Description – WHLS, on behalf of the School, contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the WHLS is required to contribute 14 percent of annual covered payroll. 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 by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the period ending May 26, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. WHLS contributions to SERS for the period ended May 26, 2011, and fiscal years June 30, 2010 and 2009 were \$64,957, \$85,925, and \$64,410, respectively, of which 100 percent has been contributed.

B. State Teachers Retirement System of Ohio

Plan Description – 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the period ended May 26, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to STRS for the period ended May 26, 2011, and fiscal years June 30, 2010 and 2009 were \$162,000, \$171,629, and \$159,750, respectively, of which 100% has been contributed. Contributions to the DB and combined plans for fiscal year 2011 were \$145,989 made the school and \$104,278 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. As of May 26, 2011, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

12. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post employment benefit plans.

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40; SERS' reimbursement for retirees was \$45.50.

HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)

12. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal 2011, the actuarial required allocation is .76 percent. The Schools' contributions for the period ended May 26, 2011, and fiscal years June 30, 2010 and 2009 were \$4,180, \$5,110, and \$5,314, respectively, of which 100% has been contributed.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the period May 26, 2011, the health care allocation is 1.43 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the period ended May 26, 2011, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Schools' contributions assigned to health care for the period ended May 26, 2011, and fiscal years June 30, 2010 and 2009 were \$17,148, \$14,599, and \$42,099, respectively, of which 100% has been contributed.

The SERS Retirement Board established the rules for the premiums paid by the retirees for healthcare coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

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 2011, 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 period ended May 26, 2011, and fiscal years June 30, 2010, and 2009 were \$12,462, \$13,202, and \$12,288, respectively, all of which has been contributed for all fiscal years.

13. CONTINGENCES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

B. Pending Litigation

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

In February 2011, the School Filed a Lawsuit against the WHLS and its affiliates for matters related to the management agreement. The effect of this lawsuit is presently not determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The adjustment is immaterial to the financial statements.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 26, 2011
(continued)**

14. SPONSORSHIP FEES

In June of 2010, the School contracted with Buckeye Community Hope Foundation (BCHF) for the period (ending May 2011) to be its sponsor. The school will pay BCHF three percent of State Aid as its sponsorship fee in fiscal year 2011. Total fees were \$105,170 with \$8,796 unpaid at May 26, 2011 and has been recorded as Sponsor Fees Payable on the financial statements. The Sponsor provides oversight, monitoring, and technical assistance for the School.

15. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization.

16. RECEIVABLES/PAYABLES TO SCHOOLS

The School shares costs for certain professional services with other Hope Academies and Life Skills Centers. As of May 26, 2011, the School had \$235 due from other schools (receivable) and \$410 due to other schools (payable) for various payments made for these services.

17. SCHOOL CLOSURE

The Ohio Department of Education has terminated the School's charter effective May 26, 2011 for not meeting academic performance measures pursuant to Ohio Revised Code.

18. SUBSEQUENT EVENTS

As of December 15, 2011, the School had a cash balance of \$731,084 and liabilities of \$9,277. Once all costs and liabilities are known, the School will pay its final costs and any residual cash balances remaining will be remitted to the Ohio Department of Education per Ohio Revised Code 3314.074.

December 15, 2011

To The Board of Directors
Hope Academy Cathedral Campus
10615 Lamontier Ave.
Cleveland, OH 44104

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Hope Academy Cathedral Campus (the School) as of May 26, 2011 and for the period July 1, 2010 through May 26, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 15, 2011, which indicates the school closed effective May 26, 2011. 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.

Internal Control Over Financial Reporting

Management of Hope Academy Cathedral Campus is responsible for establishing and maintaining effective 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 or other matters that we must report under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hope Academy Cathedral Campus in a separate letter dated December 15, 2011.

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

Rea & Associates, Inc.

December 15, 2011

To the Board of Directors
Hope Academy Cathedral Campus
10615 Lamontier Ave.
Cleveland, Oh 44104

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Compliance

We have audited the compliance of Hope Academy Cathedral Campus (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 could have a direct and material effect on each of its major federal programs for the period ended May 26, 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the period ended May 26, 2011.

Internal Control Over Compliance

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, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the Board of Directors, management, audit committee, others within the school, the School's sponsor, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

Hea & Associates, Inc.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDED MAY 26, 2011**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA #	Grant Year	Revenues	Expenses
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I Cluster</i>				
Title I	84.010	2011	\$ 473,538	\$ 473,538
ARRA - Title I	84.389	2011	257,345	257,345
<i>Total Title I Cluster</i>			<u>730,883</u>	<u>730,883</u>
<i>Special Education Cluster</i>				
Special Education IDEA Part B	84.027	2011	124,620	124,620
ARRA - Special Education IDEA Part B	84.391	2011	21,813	21,813
<i>Total Special Education Cluster</i>			<u>146,433</u>	<u>146,433</u>
Safe and Drug-Free Schools	84.186	2011	3,250	3,250
Technology Literacy Challenge Fund Grant	84.318	2011	1,645	1,645
Improving Teacher Quality	84.367	2011	56,424	56,424
ARRA - State Fiscal Stabilization Fund	84.394	2011	298,929	298,929
<i>Total U.S. Department of Education</i>			<u>1,237,564</u>	<u>1,237,564</u>
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	10.553	2011	65,155	65,155
National School Lunch Program	10.555	2011	180,129	180,129
<i>Total Child Nutrition Cluster</i>			<u>245,284</u>	<u>245,284</u>
<i>Total U.S. Department of Agriculture</i>			<u>245,284</u>	<u>245,284</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,482,848</u>	<u>\$ 1,482,848</u>

The accompanying notes are an integral part of this schedule.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDED MAY 26, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using 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. There were no transfers of federal funds from fiscal year 2010 to fiscal year 2011.

**HOPE ACADEMY CATHEDRAL CAMPUS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , SECTION .505
FOR THE PERIOD ENDED MAY 26, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions 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 non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions 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 Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title I Cluster, CFDA # 84.010, 84.389
(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 were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted.

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Directors
Hope Academy Cathedral Campus
10615 Lamontier Ave.
Cleveland, Oh 44104

December 15, 2011

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Hope Academy Cathedral Campus (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School amended its anti-harassment policy at its meeting on August 19, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Dave Yost • Auditor of State

HOPE ACADEMY CATHEDRAL CAMPUS

SUMMIT 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 13, 2012