



Mary Taylor, CPA
Auditor of State

CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Clay Avenue Community School
Lucas County
1030 Clay Avenue
Toledo, Ohio 43608

To the Governing Board:

We have audited the accompanying basic financial statements of the Clay Avenue Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the management company's expenses which totaled \$1,913,197 as indicated in Note 10. Other auditors audited these amounts and have furnished their report thereon to us and we based our opinion, insofar as it relates to the amounts included for Note 10, on the report of the other auditors.

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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Clay Avenue Community School, Lucas County, Ohio, as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

June 10, 2009

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of the Clay Avenue Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments". Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the School comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were a deficit of \$250,068 at June 30, 2008.
- The School had operating revenues of \$1,209,630, operating expenses of \$1,861,142 and non-operating revenues of \$401,444 for fiscal year 2008.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2008?" The *statement of net assets* and the *statement of revenues, expenses and changes in net assets* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. 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 causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its

**CLAY AVENUE COMMUNITY SCHOOL
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table below provides a summary of the School's net assets for the fiscal year ended June 30, 2008. This is the School's first year of operation, comparative information is not available.

Net Assets

	<u>2008</u>
<u>Assets</u>	
Current assets	\$ 62,174
Total assets	<u>62,174</u>
<u>Liabilities</u>	
Current liabilities	62,242
Long-term liabilities	<u>250,000</u>
Total liabilities	<u>312,242</u>
<u>Net Assets</u>	
Unrestricted (deficit)	<u>(250,068)</u>
Total net assets (deficit)	<u>\$ (250,068)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the School's net assets totaled a deficit of \$250,068.

Current assets represent cash and intergovernmental receivables. Current liabilities of \$62,242 represent accounts payable for professional services. The long-term liabilities amount represents the amount due to Imagine Schools, Inc. at fiscal year-end for the Development Allocation fee of \$250,000 (see Note 9.B and Note 15 to the financial statements for detail).

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

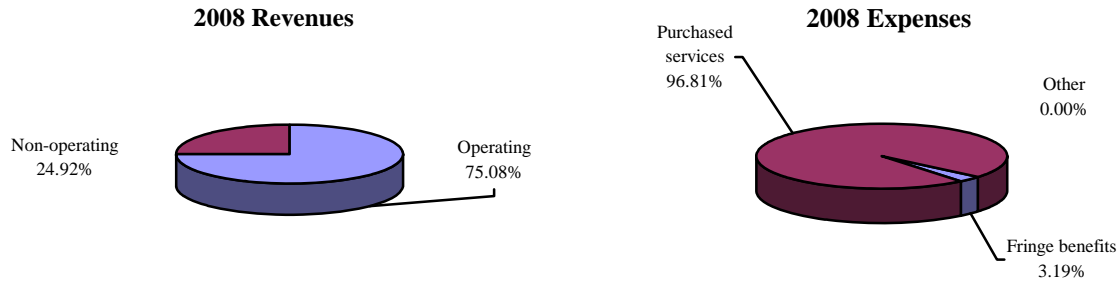
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2008. This is the School's first year of operation, comparative information is not available.

Change in Net Assets

	2008
<u>Operating Revenues:</u>	
State foundation	\$ 1,209,630
Total operating revenue	1,209,630
<u>Operating Expenses:</u>	
Fringe benefits	59,440
Purchased services	1,801,683
Other	19
Total operating expenses	1,861,142
<u>Non-operating Revenues:</u>	
Federal and state grants	401,444
Total non-operating revenues	401,444
Change in net assets	(250,068)
Net assets at beginning of year	-
Net assets (deficit) at end of year	\$ (250,068)

The charts below illustrate the revenues and expenses for the School for fiscal year 2008.



Debt

At June 30, 2008, the School had \$250,000 in a related party contracts payable which is reported as a long-term liability. See Note 9.B and Note 15 to the basic financial statements for more detail.

Capital Assets

The School had no capital assets over the threshold to report at June 30, 2008.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

Restrictions and Other Limitations

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the School.

Current Financial Related Activities

The School is sponsored by The Ohio Council of Community Schools. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact Ms. Arlene Wilson, Treasurer, Charter School Specialists, 1030 Clay Avenue, Toledo, Ohio 43608.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current assets:	
Cash	\$ 81
Receivables:	
Intergovernmental	<u>62,093</u>
Total assets	<u>62,174</u>
 Liabilities:	
Current liabilities:	
Accounts payable	<u>62,242</u>
Total current liabilities	<u>62,242</u>
 Long-term liabilities:	
Due within one year	1,276
Due in more than one year	<u>248,724</u>
Total long-term liabilities	<u>250,000</u>
 Total liabilities	 <u>312,242</u>
 Net Assets:	
Unrestricted (deficit)	<u>(250,068)</u>
Total net assets (deficit).	<u>\$ (250,068)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:	
State foundation	\$ 1,209,630
Total operating revenue	<u>1,209,630</u>
Operating expenses:	
Fringe benefits	59,440
Purchased services	1,801,683
Other	<u>19</u>
Total operating expenses	<u>1,861,142</u>
Operating loss	<u>(651,512)</u>
Non-operating revenues:	
Federal and state grants	<u>401,444</u>
Total non-operating revenues	<u>401,444</u>
Change in net assets	(250,068)
Net assets at beginning of year	<u>-</u>
Net assets (deficit) at end of year	<u>\$ (250,068)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,205,443
Cash payments for fringe benefits	(59,440)
Cash payments for purchased services	(1,489,441)
Cash payments for other expenses	<u>(19)</u>
Net cash used in operating activities	<u>(343,457)</u>
Cash flows from noncapital financing activities:	
Federal and state grants	<u>343,538</u>
Net cash provided by noncapital financing activities	<u>343,538</u>
Net increase in cash and cash equivalents	81
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ 81</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (651,512)
Changes in assets and liabilities:	
Increase in due from other governments	(4,187)
Increase in accounts payable	62,242
Increase in contracts payable	<u>250,000</u>
Net cash used in operating activities	<u><u>\$ (343,457)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Clay Avenue Community School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School specializes in providing students in grades K-3 with a challenging, effective program of study and strong moral development in a safe and nurturing learning environment. The focus is on students residing in the Toledo Public 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 was approved under contract with The Ohio Council of Community Schools (the "Sponsor") on March 14, 2007 for a period of five years and ending on June 30, 2012. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under the direction of a Governing Board which shall consist of not less than five members. No member of the Governing Board shall serve on the Governing Boards of more than two start-up community schools at the same time. The majority of the Governing Board must be comprised of individuals from Lucas County or adjacent counties. All Governing Board members must be approved by the Sponsor prior to appointment. No employee of the School shall also be a voting member of the Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Board controls the School's instructional/support facility staffed by employees of the management company who provide services to 158 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. 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 prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The School's significant 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.

The School uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the School finances meet its cash flow needs.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.39 of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash

Cash received by the School is reflected as "cash" on the statement of net assets. Unless otherwise noted, all monies received by the School are pooled and deposited in a central bank account as demand deposits. The School did not have any investments during fiscal year 2008.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The School has established a capitalization threshold of \$5,000. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Computer equipment is depreciated over three years and other equipment is depreciated over five years.

The School had no capital assets over the threshold to report at June 30, 2008.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the Poverty Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2008 school year totaled \$1,209,630.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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. Federal and State grant revenue received during fiscal year 2008 was \$401,444.

I. Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net assets.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

K. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2008, the carrying amount of the School's deposits was \$81 and the bank balance was \$81. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, consisted of accounts and intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectable in full. A summary of the intergovernmental receivables follows:

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - RECEIVABLES - (Continued)

Intergovernmental receivables:	Amount
Title I	\$ 9,142
Title II-D	1,046
Federal start-up	47,718
Full-time equivalency adjustment	4,187
Total intergovernmental receivables	\$ 62,093

NOTE 5 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2008 were \$6,962; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 5 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, 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 to STRS Ohio for the fiscal year ended June 30, 2008 were \$45,314; 100 percent has been contributed for fiscal year 2008.

NOTE 6 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 6 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal year ended June 30, 2008 were \$3,177; 100 percent has been contributed for fiscal year 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal year ended June 30, 2008 were \$502; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2008 were \$3,486; 100 percent has been contributed for fiscal year 2008.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School maintained the following general liability, automobile liability, and excess/umbrella liability through Philadelphia Insurance Company and employers' liability and school leader's liability through Marsh USA, Inc.:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	2,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	10,000
Automobile liability	1,000,000
Excess/umbrella liability	
Each occurrence	10,000,000
Aggregate	10,000,000
Employers' liability:	
Each accident	\$1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000
School leaders:	
Errors and omissions	10,000,000
Directors and officers	3,000,000
Retention	50,000

NOTE 8 - PURCHASED SERVICES

For fiscal year 2008, purchased services expenses were as follows:

Professional and technical services	<u>\$ 1,801,683</u>
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Professional and technical services include management services, fiscal services, sponsor fees, and legal fees.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 9 - CONTRACTS

A. Sponsor Contract

The School entered into a five-year contract commencing on March 14, 2007 and continuing through June 30, 2012 with The Ohio Council of Community Schools (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with applicable laws and the terms of the contract;
- Monitor and evaluate the academic, fiscal performance and the organization and operation of the School;
- Report annually the results of its evaluation to the Department of Education and to the parents of students enrolled in the school;
- Submit a report by November 1 of each year to the Department of Education describing the special education and related services provided by the School and the School's expenditures for those services;
- Provide technical assistance to the School in complying with applicable laws and this contract;
- Intervene as the Sponsor deems necessary in the School's operation to correct problems in the School's overall performance (including but not limited to exercising its right to place the School on probation under Ohio Revised Code Section 3314.073 or to suspend or terminate the School under Ohio Revised Code Section 3314.07 or 3314.72);
- Prepare and assist with contingency plans in the event the School experiences financial difficulties or closes before the end of the school year.

The School paid the Sponsor \$31,120 for services during fiscal year 2008.

B. Management Contract

The School entered into a management contract with Imagine Schools, Inc. for management consulting services. Imagine Schools, Inc. is required to provide the following services:

- Personnel & human resources administration
- Program of instruction
- Purchasing & contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 9 - CONTRACTS - (Continued)

For the services listed above, the School is required to pay a fee to Imagine Schools, Inc. The fee is equal to approximately 90% of the total per pupil allowance received from the State of Ohio and of state and/or federal grant funds received by the School for the creation and operation of its school. Payments to Imagine Schools, Inc. amounted to \$1,447,113 during fiscal year 2008, which includes \$57,906 reported in accounts payable.

The School owes Imagine Schools, Inc. \$250,000 at June 30, 2008 towards the \$250,000 Development Allocation fee per the contract. The balance of the Development Allocation fee at June 30, 2008 is \$250,000. There were no payments made by the School during fiscal year 2008, and a long-term liability has been reported on the basic financial statements.

C. Service Contract

The School entered into a service contract with Charter School Specialists, LLC (CSS), for a period of thirteen months commencing July 1, 2007, to provide fiscal, student data, and Comprehensive Continuous Planning (CCIP) consulting services. The School paid CSS \$31,185 in service fees for fiscal year 2008.

NOTE 10 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2008, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

<u>Expenses</u>	<u>2008</u>
Direct Expenses:	
Salaries and wages	\$ 467,458
Employees' benefits	71,867
Purchased services	733,095
Supplies and materials	502,682
Capital outlay	1,769
Other direct costs	<u>136,326</u>
Total expenses	<u>\$ 1,913,197</u>

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services 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.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - OPERATING LEASES

The School entered into a sublease agreement on September 13, 2007 with Schoolhouse Finance, LLC ("SHF") to lease classroom space for the School. SHF entered into a lease with the Roman Catholic Diocese of Toledo (the "Diocese") to lease property located at 1030 Clay Avenue. SHF made leasehold improvements of approximately \$260,000 and subleased the property to the School effective August 15, 2007 through June 30, 2008. The School shall pay monthly base rent in the amount of \$32,750 to SHF. It was the mutual understanding of the parties at the time the sublease was executed that in the event that SHF was able to exercise the purchase option the parties would enter into a long-term lease, which would amortize the cost of the improvements over the term of the lease and reduce the monthly lease payments accordingly.

On March 1, 2008, anticipating the purchase of the property from the Diocese, the sublease was amended to decrease the base rent amount to \$8,533 per month through June 30, 2008.

NOTE 12 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2008.

B. Ohio Department of Education Enrollment Review

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. As a result of the review after fiscal year end, the School is due \$4,187 from the Ohio Department of Education which is reflected on the basic financial statements as an intergovernmental receivable.

NOTE 13 - MANAGEMENT PLAN

The School had an operating loss of \$651,512 and deficit net assets of \$250,068 at June 30, 2008. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies, in addition to paying down the \$250,000 Development Allocation Fee. Enrollment has increased to over 260 students and staffing efficiencies have been realized since staffing has been utilized to the fullest.

NOTE 14 - FEDERAL TAX STATUS

The School is in the process of obtaining their tax exempt status. The application was filed on April 15, 2008.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 15 - SIGNIFICANT SUBSEQUENT EVENTS

On July 1, 2008, the School extended the sublease with Schoolhouse Finance, LLC, through August 31, 2008.

On September 1, 2008, the School extended the sublease with Schoolhouse Finance, LLC, through November 30, 2008.

On December 1, 2008, the School entered into a new lease agreement with Schoolhouse Finance, LLC for the period December 1, 2008 through June 30, 2009.

On February 25, 2009, Imagine Schools amended their operating agreement with the School. The purpose of this amendment to the agreement was to amend the \$250,000 Development Allocation Fee and replace it with a \$2,500 per month Development Allocation Fee commencing March 1, 2009 and each fiscal year thereafter for a period of 240 months with an option to prepay this fee.

On May 19, 2009, the School received their tax exempt status in accordance with section 501 (c)(3) of the Internal Revenue Code.

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Mary Taylor, CPA

Auditor of State

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

Clay Avenue Community School
Lucas County
1030 Clay Avenue
Toledo, Ohio 43608

To the Governing Board:

We have audited the basic financial statements of Clay Avenue Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2008, and have issued our report thereon dated June 10, 2009, which indicated that the amounts presented in Note 10 were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School's management in a separate letter dated June 10, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and the School's Sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 10, 2009



Mary Taylor, CPA
Auditor of State

CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 14, 2009