

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Harvard Avenue Community School
Cuyahoga County
12000 Harvard Avenue
Cleveland, Ohio 44105

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Harvard Avenue Community School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the contract service fees incurred by the School which totaled \$3,796,245 as indicated in Note 11 to the basic financial statements. Other auditors audited these amounts and have furnished their report thereon to us and we base our opinion, insofar as it relates to the amounts included in Note 11, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 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.

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



Mary Taylor, CPA
Auditor of State

December 4, 2009

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

The discussion and analysis of the Harvard 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.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were \$2,950 at June 30, 2008.
- The School had operating revenues of \$3,577,384, operating expenses of \$4,090,048 and non-operating revenues of \$719,177 for fiscal year 2008. Total change in net assets was an increase of \$206,513.

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 operations. The statement of cash flows can be found on page 9 of this report.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

The table below provides a summary of the School's net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 218,295	\$ 46,437
Total assets	<u>218,295</u>	<u>46,437</u>
<u>Liabilities</u>		
Current liabilities	215,345	-
Long-term liabilities	<u>-</u>	<u>250,000</u>
Total liabilities	<u>215,345</u>	<u>250,000</u>
<u>Net Assets</u>		
Unrestricted (deficit)	<u>2,950</u>	<u>(203,563)</u>
Total net assets (deficit)	<u>\$ 2,950</u>	<u>\$ (203,563)</u>

Over time, net assets can serve as a useful indicator of the School's financial position. At June 30, 2008, the School's net assets totaled \$2,950.

Current assets increased \$171,858 as a result of intergovernmental receivables reported at fiscal year-end, whereas in fiscal year 2007, grants were received prior to fiscal year end. Current liabilities represent the amount due at fiscal year-end for professional services provided and due to Imagine Schools, Inc and the amount owed to the Ohio Department of Education as a result of the fiscal year-end review. The significant decrease in long-term liabilities and increase in net assets is a result of the School paying off the \$250,000 Development Allocation fee owed to Imagine Schools, Inc. during fiscal year 2008.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

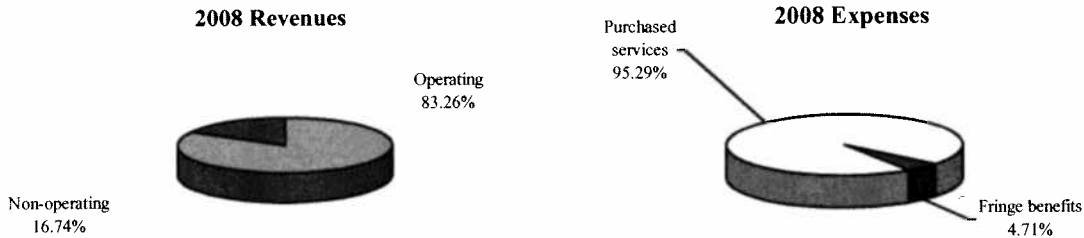
The table below shows the changes in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues:</u>		
State foundation	\$ 3,571,994	\$ 2,322,487
Other	5,390	11,582
Total operating revenue	<u>3,577,384</u>	<u>2,334,069</u>
<u>Operating Expenses:</u>		
Salaries and wages	-	13,449
Fringe benefits	192,444	73,711
Purchased services	3,897,604	2,550,943
Other	-	228
Total operating expenses	<u>4,090,048</u>	<u>2,638,331</u>
<u>Non-operating Revenues:</u>		
Federal and state grants	719,177	100,699
Total non-operating revenues	<u>719,177</u>	<u>100,699</u>
Change in net assets	206,513	(203,563)
Net assets (deficit) at beginning of year	<u>(203,563)</u>	<u>-</u>
Net assets (deficit) at end of year	<u>\$ 2,950</u>	<u>\$ (203,563)</u>

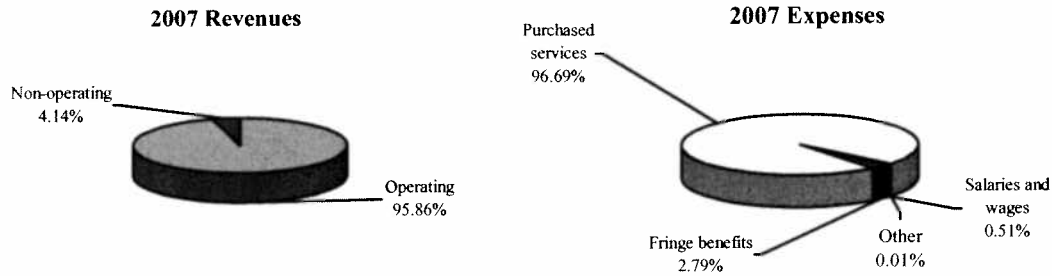
State foundation revenue, federal and state grants, fringe benefits and purchased services expenses have increased during fiscal year 2008 as a result of increased enrollment. Enrollment increased from 328 students in fiscal year 2007 to 497 students in fiscal year 2008. Salaries and wages have decreased due to a reclassification of these expenses to purchased services during fiscal year 2008.

The charts below illustrate the revenues and expenses for the School for fiscal years 2008 and 2007.



**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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



Debt

The School had no debt obligations outstanding at June 30, 2008.

Capital Assets

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

Current Financial Related Activities

The School is sponsored by St. Aloysius Orphanage. 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, 12000 Harvard Avenue, Cleveland, Ohio 44105.

BASIC
FINANCIAL STATEMENTS

HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current assets:	
Cash	\$ 15,040
Receivables:	
Intergovernmental	<u>203,255</u>
Total assets	<u>218,295</u>
Liabilities:	
Current liabilities:	
Accounts payable	208,355
Intergovernmental payable	<u>6,990</u>
Total liabilities	<u>215,345</u>
Net Assets:	
Unrestricted.	<u>2,950</u>
Total net assets	<u>\$ 2,950</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

Operating revenues:	
State foundation	\$ 3,571,994
Other	<u>5,390</u>
Total operating revenue	<u>3,577,384</u>
 Operating expenses:	
Fringe benefits	192,444
Purchased services	<u>3,897,604</u>
Total operating expenses	<u>4,090,048</u>
 Operating loss	 <u>(512,664)</u>
 Non-operating revenues:	
Federal and state grants	<u>719,177</u>
Total non-operating revenues	<u>719,177</u>
 Change in net assets	 206,513
 Net assets (deficit) at beginning of year . . .	 <u>(203,563)</u>
Net assets at end of year	<u>\$ 2,950</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 3,578,984
Cash received from other operations	5,390
Cash payments for fringe benefits	(192,444)
Cash payments to suppliers for goods and services. . .	<u>(3,939,249)</u>
 Net cash used in operating activities	 <u>(547,319)</u>
Cash flows from noncapital financing activities:	
Federal and state grants.	<u>531,656</u>
 Net cash provided by noncapital financing activities	 <u>531,656</u>
 Net decrease in cash and cash equivalents	 (15,663)
 Cash and cash equivalents at beginning of year. . . .	 <u>30,703</u>
Cash and cash equivalents at end of year	<u>\$ 15,040</u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (512,664)
 Changes in assets and liabilities:	
Decrease in accounts payable	(41,645)
Increase in intergovernmental payable	<u>6,990</u>
 Net cash used in operating activities	 <u>\$ (547,319)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Harvard Avenue Community School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School specializes in providing educational services to establish a new conversion school in Cleveland, Ohio, addressing the needs of students in grades K-6. 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 St. Aloysius Orphanage (the "Sponsor") on March 10, 2006 for a period of five years and ending on June 30, 2011. The School began operations on September 5, 2006. 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 five-member Board of Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the School. The 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 Board controls the School's instructional/support facility staffed by employees of the management company who provide services to 497 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.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA 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

Unlike other public schools located in the State of Ohio, the School is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis. Each year, on or before June 30, a revised budget shall be submitted to the Sponsor.

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 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.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA 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 \$3,571,994.

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 \$719,177.

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 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2008, the School has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the School; however, certain disclosures related to postemployment benefits (see Note 7) have been modified to conform to the new reporting requirements.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the School.

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

NOTE 4 - 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 policy for credit risk. At June 30, 2008, the carrying amount of the School's deposits was \$15,040 and the bank balance was \$17,516. 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 5 - 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:

Intergovernmental receivables:	<u>Amount</u>
Federal meal reimbursement	\$ 28,540
Safe & drug free	1,047
Title IIA	11,127
Community schools start-up	157,279
Title II-D	2,372
Professional development	1,890
Management information systems	<u>1,000</u>
Total intergovernmental receivables	<u>\$ 203,255</u>

NOTE 6 - 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*.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 6 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008 and June 30, 2007 were \$47,297 and \$14,075, respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

B. State Teachers Retirement System

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.

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.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 6 - PENSION PLANS - (Continued)

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008 and June 30, 2007 were \$111,573 and \$51,105, respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

NOTE 7 - 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.

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 years ended June 30, 2008 and June 30, 2007 were \$21,583 and \$4,375, respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

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 years ended June 30, 2008 and June 30, 2007 were \$3,408 and \$896, respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

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.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008 and June 30, 2007 were \$8,583 and \$3,931, respectively; 100 percent has been contributed for fiscal years 2008 and 2007.

NOTE 8 - 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 liability insurance through Marsh USA, Inc and Indiana Insurance Company.

<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	1,000,000
Products	3,000,000
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
Liability:	
Errors and omissions	10,000,000
D&O/EPL	3,000,000
Retention	50,000

NOTE 9 - PURCHASED SERVICES

For the fiscal year ended June 30, 2008, purchased services expenses were as follows:

Professional and Technical Services	\$	3,897,604
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Professional and technical services include management services, fiscal services, sponsor fees, and legal fees.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 10 - CONTRACTS

A. Sponsor Contract

The School entered into a five-year contract commencing on March 10, 2006 and continuing through June 30, 2011 with St. Aloysius Orphanage (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the Contract with the Sponsor and the laws applicable to the School.
- Monitor and evaluate the academic, fiscal, and organizational performance of the School on at least an annual basis, and evaluate the academics of the School for a period of at least three school years and provide the results of students enrolled at the School.
- Provide reasonable technical assistance to the School.
- As permitted by law, intervene in the School's operation to correct problems in the School's overall performance, declare the School to be on probationary status pursuant to Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor.
- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year.

The School paid the Sponsor \$117,689 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

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 10 - 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. In the event that the year-end reconciliation results in a difference between the total amount paid and the agreed fee, with a balance owed, the Imagine Schools, Inc. has a right to suspend collection until such time as the School determines cash flow permits such payment. Payments to Imagine Schools, Inc. amounted to \$3,963,843 during fiscal year 2008, which includes \$208,355 reported in accounts payable.

During fiscal year 2008 the School paid off the \$250,000 Development Allocation fee per the management contract with Imagine Schools Inc.

C. Service Contract

The School entered into a service contract with Charter School Specialists, LLC (CSS), to provide fiscal, student data, and Comprehensive Continuous Planning (CCIP) consulting services. The School paid CSS \$29,700 in service fees during fiscal year 2008.

NOTE 11 - MANAGEMENT COMPANY EXPENSES

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

Salaries and wages	\$ 1,361,600
Employee benefits	376,934
Purchased services	1,294,518
Materials and supplies	400,545
Capital outlay	27,288
Other direct costs	<u>335,360</u>
Total	<u>\$ 3,796,245</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.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO**

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

NOTE 12 - OPERATING LEASES

The School entered into a lease agreement on August 1, 2006, with Schoolhouse Finance, LLC to lease classroom space for the School. The term of the lease commenced August 15, 2006, and shall continue through June 30, 2021. Thereafter the lease shall automatically renew for up to two consecutive five year terms, unless written notice of intent not to extend is delivered by either party at least one hundred eighty days prior to the end of the initial term or the first renewal term. Imagine Schools, Inc., on the School's behalf, shall pay to Schoolhouse Finance, LLC \$737,388 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifth day of each month of the term.

NOTE 13 - 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 owes \$6,990 to the Ohio Department of Education which is reflected on the basic financial statements as an intergovernmental payable.

NOTE 14 - FEDERAL TAX STATUS

The School is in the process of obtaining their tax exempt status.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
School Breakfast Program	10.553	24,726	0	24,726	0
School Lunch Program	10.555	141,457	0	141,457	0
Total Nutrition Cluster		166,183	0	166,183	0
Total U.S. Department of Agriculture		166,183	0	166,183	0
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I	84.010	151,126	0	167,382	0
Special Education, Part B-IDEA	84.027	73,264	0	73,264	0
Safe and Drug Free Schools	84.186	583	0	583	0
Charter School Start Up Grant	84.282	118,341	0	118,341	0
Innovation Technology	84.298	52	0	52	0
Education Technology	84.318	2,016	0	2,016	0
Improving Teacher Quality	84.367	6,142	0	6,142	0
Total U.S. Department of Education		351,524	0	367,780	0
Total Federal Assistance		517,707	0	533,963	0

The accompanying notes are an integral part of this schedule.

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. The information of this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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 – FOOD DISTRIBUTION

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

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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*

Harvard Avenue Community School
Cuyahoga County
12000 Harvard Avenue
Cleveland, Ohio 44105

To the Board of Trustees:

We have audited the basic financial statements of the Harvard Avenue Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2008 and have issued our report thereon dated December 4, 2009, which indicated that the amounts presented in Note 11 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 Academy's management in a separate letter dated December 4, 2009.

Harvard Avenue Community School
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

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 Board of Trustees, management, audit committee, the community school sponsor, and federal awarding agencies and pass-through entities. 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

December 4, 2009



Mary Taylor, CPA

Auditor of State

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

Harvard Avenue Community School
Cuyahoga County
12000 Harvard Avenue
Cleveland, Ohio 44105

To the Board of Trustees

Compliance

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

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

In our opinion, the Harvard Avenue Community School complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, the community school sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 4, 2009

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster – School Breakfast Program – CFDA 10.553 and National School Lunch Program – CFDA 10.555 Title I – CFDA 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	NO

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

**HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 19, 2010**