



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 Clay Avenue Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2009, 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 \$2,493,821 as indicated in Note 12. 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 12, 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, 2009, 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 9, 2010, 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

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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 schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditures 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.

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

Mary Taylor, CPA
Auditor of State

June 9, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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, 2009. 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 2009 are as follows:

- In total, net assets were a deficit of \$247,432 at June 30, 2009.
- The School had operating revenues of \$1,915,059, operating expenses of \$2,817,663 and non-operating revenues and expenses of \$931,276 and \$26,036, respectively, for fiscal year 2009.

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 2009?" 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The table below provides a comparative analysis of fiscal years 2009 and 2008:

Net Assets		
	2009	2008
<u>Assets</u>		
Current assets	\$ 59,509	\$ 62,174
<u>Liabilities</u>		
Current liabilities	60,905	62,242
Long-term liabilities	246,036	250,000
Total liabilities	306,941	312,242
<u>Net Assets</u>		
Unrestricted (deficit)	\$ (247,432)	\$ (250,068)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the School's net assets totaled a deficit of \$247,432.

Current assets represent cash and intergovernmental receivables. Current liabilities at June 30, 2009, of \$60,905 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 (see Note 6 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, 2009
UNAUDITED

The table below shows the changes in net assets for fiscal years 2009 and 2008. Fringe benefits expenses reported in fiscal year 2008 have been reported in purchased services to conform to fiscal year 2009 presentation.

Change in Net Assets

	<u>2009</u>	<u>2008</u>
<u>Operating Revenues:</u>		
State foundation	\$ 1,915,059	\$ 1,209,630
<u>Operating Expenses:</u>		
Purchased services	2,809,974	1,861,123
Other	<u>7,689</u>	<u>19</u>
Total operating expenses	<u>2,817,663</u>	<u>1,861,142</u>
<u>Non-operating Revenues (Expenses):</u>		
Federal and state grants	931,276	401,444
Interest expense	<u>(26,036)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>905,240</u>	<u>401,444</u>
Change in net assets	2,636	(250,068)
Net assets (deficit) at beginning of year	<u>(250,068)</u>	<u>-</u>
Net assets (deficit) at end of year	<u>\$ (247,432)</u>	<u>\$ (250,068)</u>

State foundation revenue and operating expenses in general increased as a result of increased enrollment from 158 students in fiscal year 2008 to 241 students in fiscal year 2009. During fiscal year 2009 Federal and State grant revenue increased \$529,832 from fiscal year 2008 as a result of additional grant monies received for programs such as food service, Title I, Title VI-B, and Federal start-up. Interest expense was reported during fiscal year 2009, which reflects the interest portion of the Development Allocation fee payments (see Note 6 to the financial statements for detail).

Debt

At June 30, 2009, the School had \$246,036 in a related party contracts payable which is reported as a long-term liability. See Note 6 to the basic financial statements for more detail.

Capital Assets

The School had no capital assets over the threshold to report at June 30, 2009.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

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, 2009**

Assets:	
Current assets:	
Cash	\$ 2,043
Receivables:	
Intergovernmental	<u>57,466</u>
Total assets	<u>59,509</u>
 Liabilities:	
Current liabilities:	
Accounts payable	<u>60,905</u>
Long-term liabilities:	
Due within one year	4,351
Due in more than one year	<u>241,685</u>
Total long-term liabilities	<u>246,036</u>
Total liabilities	<u>306,941</u>
 Net Assets:	
Unrestricted (deficit)	<u>(247,432)</u>
Total net assets (deficit).	<u>\$ (247,432)</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, 2009

Operating revenues:	
State foundation.	<u>\$ 1,915,059</u>
Operating expenses:	
Purchased services.	2,809,974
Other.	<u>7,689</u>
Total operating expenses.	<u>2,817,663</u>
Operating loss	<u>(902,604)</u>
Non-operating revenues (expenses):	
Federal and state grants	931,276
Interest expense	<u>(26,036)</u>
Total non-operating revenues (expenses)	<u>905,240</u>
Change in net assets	2,636
Net assets (deficit) at beginning of year	<u>(250,068)</u>
Net assets (deficit) at end of year.	<u><u>\$ (247,432)</u></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, 2009

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,919,246
Cash payments for purchased services	(2,811,335)
Cash payments for other expenses	<u>(7,665)</u>
Net cash used in operating activities	<u>(899,754)</u>
Cash flows from noncapital financing activities:	
Federal and state grants	<u>931,716</u>
Cash flows from capital and related financing activities:	
Principal retirement	(3,964)
Interest expense	<u>(26,036)</u>
Net cash used in capital and related financing activities	<u>(30,000)</u>
Net increase in cash and cash equivalents	1,962
Cash and cash equivalents at beginning of year	<u>81</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,043</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (902,604)
Changes in assets and liabilities:	
Decrease in due from other governments	4,187
Decrease in accounts payable	<u>(1,337)</u>
Net cash used in operating activities	<u><u>\$ (899,754)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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-5 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 241 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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.

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 nonexchange 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 2009.

F. Capital Assets

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.

The School had no capital assets over the threshold to report at June 30, 2009.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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.

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the Poverty Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2009 school year totaled \$1,915,059.

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 2009 was \$931,276.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2009, the School has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the School.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the School.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the School.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 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 deposit policy for custodial credit risk. At June 30, 2009, the carrying amount of the School's deposits was \$2,043 and the bank balance was \$7,948. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 5 - RECEIVABLES

Receivables at June 30, 2009, consisted of accounts and intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	<u>Amount</u>
Title VI-B	\$ 14,119
Title I	33,717
Title IIA	2,275
Federal and State food reimbursement	<u>7,355</u>
Total intergovernmental receivables	<u>\$ 57,466</u>

NOTE 6 - LONG-TERM LIABILITIES

On February 25, 2009, Imagine Schools, Inc. amended the operating agreement with the School. The purpose of this amendment was to amend the \$250,000 Development Allocation fee for the performance of development services by Imagine Schools, Inc. and replace it with a \$2,500 per month Development Allocation fee commencing March 1, 2009 continuing for a period of 240 months at an interest rate of 10.50%. At any time during the contract the School may elect to prepay the balance of the Development Allocation fee.

The School made \$3,964 and \$26,036 in principal and interest payments, respectively, on the balance of the Development Allocation fee during 2009. A long-term liability has been reported on the basic financial statements. A summary of the Development Allocation fee liability during fiscal year 2009 follows:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Due Within One Year</u>
Development					
Allocation Fee	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ (3,964)</u>	<u>\$ 246,036</u>	<u>\$ 4,351</u>

The following is a summary of the future debt requirements to maturity for the Development Allocation fee:

<u>Fiscal Year Ending,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,351	\$ 25,649	\$ 30,000
2011	4,831	25,169	30,000
2012	5,364	24,636	30,000
2013	5,955	24,045	30,000
2014	6,612	23,388	30,000
2015-2019	45,748	104,252	150,000
2020-2024	77,192	72,808	150,000
2025-2029	95,983	21,517	117,500
Total	<u>\$ 246,036</u>	<u>\$ 321,464</u>	<u>\$ 567,500</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 7 - PENSION PLANS

The School has contracted with Imagine Schools, Inc. to provide employee services and to pay those employees (see Note 11.B.). However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below:

A. School Employees Retirement System

Plan Description - Imagine Schools, Inc., on behalf of 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 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended 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, 2009 and 2008 were \$9,921 and \$6,962, respectively; 100 percent has been contributed for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - Imagine Schools, Inc., on behalf of the School, contributes to 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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 7 - PENSION PLANS - (Continued)

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 2009, 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 years ended June 30, 2009 and 2008 were \$91,227 and \$45,314, respectively; 100 percent has been contributed for fiscal years 2009 and 2008.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - Imagine Schools, Inc., on behalf of the School, contributes to 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 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)

surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined 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 (including surcharge) for the fiscal years ended June 30, 2009 and 2008 were \$4,252 and \$3,177, respectively; 100 percent has been contributed for fiscal years 2009 and 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 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2009 and 2008 were \$767 and \$502, respectively; 100 percent has been contributed for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - Imagine Schools, Inc., on behalf of 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 2009, 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, 2009 and 2008 were \$7,017 and \$3,486, respectively; 100 percent has been contributed for fiscal years 2009 and 2008.

NOTE 9 - 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 2009, the School maintained the following general liability, automobile liability, and excess/umbrella liability through Philadelphia Indemnity Insurance Company and employers' liability and school leader's liability through Marsh USA, Inc.:

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - RISK MANAGEMENT – (Continued)

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$ 1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	3,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	10,000,000
Aggregate	10,000,000
Retention	10,000
Employers' liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000
School leader's liability:	
Errors and omissions	\$10,000,000
Directors and officers	3,000,000
Retention	50,000

NOTE 10 - PURCHASED SERVICES

For fiscal year 2009, purchased services expenses were as follows:

Professional and technical services	<u>\$ 2,809,974</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, 2009**

NOTE 11 - 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 \$61,536 for services during fiscal year 2009.

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 and human resources administration
- Program of instruction
- Purchasing and 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, 2009**

NOTE 11 - 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 \$2,596,353 during fiscal year 2009, which includes \$57,466 and \$57,906 reported in accounts payable at June 30, 2009 and June 30, 2008, respectively.

C. Service Contract

The School entered into a service contract with Charter School Specialists, LLC (CSS), for a period of fourteen months commencing August 1, 2008, to provide fiscal, student data, and Comprehensive Continuous Planning (CCIP) consulting services. The School paid CSS \$36,699 in service fees for fiscal year 2009.

NOTE 12 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2009, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

<u>Expenses</u>	<u>2009</u>
Direct Expenses:	
Salaries and wages	\$ 863,922
Employees' benefits	260,160
Purchased services	598,573
Supplies and materials	467,493
Capital outlay	28,288
Other direct costs	45,578
Indirect Expenses	<u>229,807</u>
Total expenses	<u>\$ 2,493,821</u>

Imagine's indirect charges are assigned to each 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.

NOTE 13 - 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 paid 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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 13 - OPERATING LEASES – (Continued)

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.

On July 1, 2008, the School extended the sublease with SHF, through August 31, 2008.

On September 1, 2008, the School extended the sublease with SHF, through November 30, 2008.

On December 1, 2008, the School entered into a lease agreement with SHF to lease classroom space for the School for the period December 1, 2008 through June 30, 2009. Imagine Schools, Inc., on the School's behalf, shall pay monthly base rent in the amount of \$8,525 to SHF.

On June 30, 2009, the School entered into a lease agreement with SHF to lease classroom space for the School. The term of the lease commenced July 1, 2009, and shall continue through June 30, 2024. Thereafter the lease shall automatically extend for two additional 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 then current lease term. Imagine Schools, Inc., on the School's behalf, shall pay to SHF \$105,369 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term.

Imagine Schools, Inc., on the School's behalf made \$102,340 in payments to SHF during fiscal year 2009.

NOTE 14 - 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, 2009.

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. For fiscal year 2009, the result of this review resulted in an underpayment of Foundation Revenue of \$1,020.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 15 - MANAGEMENT PLAN

The School had an operating loss of \$902,604 and deficit net assets of \$247,432 at June 30, 2009. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies, in addition to paying down the Development Allocation Fee (described in Note 6). Enrollment has increased and staffing efficiencies have been realized since staffing has been utilized to the fullest.

NOTE 16 - FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on May 19, 2009. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$30,345	\$30,345
National School Lunch Program	10.555	<u>88,677</u>	<u>88,677</u>
Total U.S. Department of Agriculture		<u>\$119,022</u>	<u>\$119,022</u>
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States (IDEA Part B)	84.027	41,575	41,575
Special Education - Preschool Grant	84.173	<u>2,510</u>	<u>2,510</u>
Total Special Education Cluster		<u>44,085</u>	<u>44,085</u>
Title I Grants to Local Educational Agencies	84.010	249,328	249,328
Safe and Drug-Free Schools and Communities State Grants	84.186	1,320	1,320
Charter Schools Grant	84.282	497,719	466,271
Education Technology State Grants	84.318	2,867	2,867
Improving Teacher Quality State Grants	84.367	<u>10,567</u>	<u>10,567</u>
Total U.S. Department of Education		<u>805,886</u>	<u>774,438</u>
Total Federal Assistance		<u><u>\$924,908</u></u>	<u><u>\$893,460</u></u>

The accompanying notes are an integral part of this schedule.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Clay Avenue Community School's (the School's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the School to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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, (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated June 9, 2010, which indicated that the amounts presented in Note 12 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 9, 2010.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated June 9, 2010.

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



Mary Taylor, CPA
Auditor of State

June 9, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

Compliance

We have audited the compliance of Clay Avenue Community School, Lucas County (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 its major federal program for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

In our opinion, the Clay Avenue Community School, Lucas County 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, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2009-001. In a separate letter to the School's management dated June 9, 2010, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School's management in a separate letter dated June 9, 2010.

The School's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, audit committee, Governing Board, School's 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

June 9, 2010

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

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?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Charter School Grant CFDA# 84.282
<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 FOR FEDERAL AWARDS

FINDING NUMBER 2009-001

Noncompliance Citation

OMB Circular A-133 § .200, Audits of States, Local Governments and Non-Profit Organizations, as published on 06/27/2003, requires Non-Federal entities that expend \$500,000 or more in a year in Federal awards to have a single or program-specific audit conducted for that year in accordance with the provisions of OMB Circular A-133.

Clay Avenue Community School
Lucas County
Schedule of Findings

OMB Circular A-133 § .320 requires the audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The School expended greater than \$500,000 in Federal awards during fiscal year 2009 and did not have a single audit or a program-specific audit conducted to meet the nine month deadline. The School did not receive an extension to this filing requirement.

Officials' Response:

The Imagine School executives along with the HHH CPA Group have agreed upon procedures that will now meet the requirements of the law for filing single audits in a timely manner.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on November 14, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the school administration semiannually provide the president of the school board a written summary of all reported incidents and post the summary on its web site, if the school has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



Mary Taylor, CPA
Auditor of State

June 9, 2010



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
AUGUST 24, 2010**