HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY

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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 period September 5, 2006 through June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

In our opinion, 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, 2007, and the respective changes in its net assets and cash flows for the period September 5, 2006 through June 30, 2007**,** in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2007, the School suffered an operating loss in the amount of $304,262, and a net loss of $203,563. Management's plan in regard to these matters is described in Note 13.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 25, 2009

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 period September 5, 2006 through June 30, 2007. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were a deficit of $203,563 at June 30, 2007.

- The School had operating revenues of $2,334,069, operating expenses of $2,638,331 and non-operating revenues of $100,699 for the period September 5, 2006 through June 30, 2007. Total change in net assets for the period was a decrease of $203,563.

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 2007?" 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 6 and 7 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 8 of this report.

The table below provides a summary of the School's net assets for the period September 5, 2006 through June 30, 2007. This is the School's first year of operation, comparative information is not available.

Net Assets

	2007
Assets	
Current assets	$ 46,437
Total assets	46,437
Liabilities	
Current liabilities	250,000
Total liabilities	250,000
Net Assets	
Unrestricted (deficit)	(203,563)
Total net assets (deficit)	$ (203,563)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the School's net assets totaled a deficit of $203,563.

Current assets represent cash and an intergovernmental receivable for the food service program. Current liabilities represent the amount due to the Imagine Schools, Inc. at fiscal year-end for the development allocation fee.

The table below shows the changes in net assets for the period September 5, 2006 through June 30, 2007.

HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

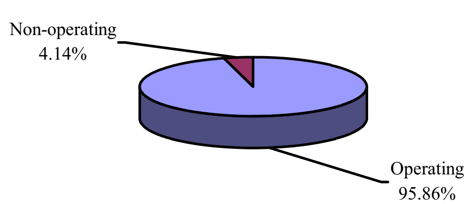
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 5, 2006 THROUGH JUNE 30, 2007

Change in Net Assets

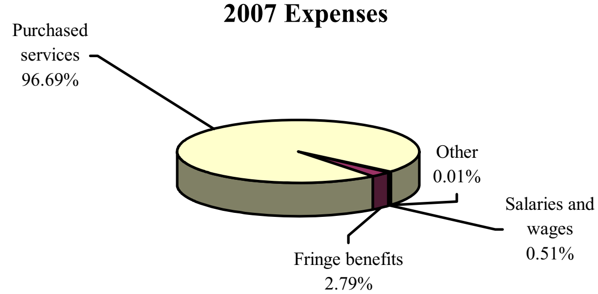
	2007
Operating Revenues:	
State foundation	$ 2,322,487
Other	11,582
Total operating revenue	2,334,069
Operating Expenses:	
Salaries and wages	13,449
Fringe benefits	73,711
Purchased services	2,550,943
Other	228
Total operating expenses	2,638,331
Non-operating Revenues:	
Federal and state grants	100,699
Total non-operating revenues	100,699
Change in net assets	(203,563)
Net assets at beginning of period	-
Net assets (deficit) at end of period	$ (203,563)

The charts below illustrate the revenues and expenses for the School for the period September 5, 2006 through June 30, 2007.

2007 Revenues



2007 Expenses



Current Financial Related Activities

HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 5, 2006 THROUGH JUNE 30, 2007

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.

HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:		
Current assets:		
Cash	$	30,703
Receivables:		
Intergovernmental		15,734
Total assets		46,437
Liabilities:		
Current liabilities:		
Accounts payable		250,000
Total liabilities		250,000
Net Assets:		
Unrestricted (deficit)		(203,563)
Total net assets (deficit).	$	(203,563)

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 PERIOD SEPTEMBER 5, 2006 THROUGH JUNE 30, 2007

Operating revenues:	
State foundation.	$ 2,322,487
Other.	11,582
Total operating revenue	2,334,069
Operating expenses:	
Salaries and wages	13,449
Fringe benefits.	73,711
Purchased services.	2,550,943
Other.	228
Total operating expenses.	2,638,331
Operating loss	(304,262)
Non-operating revenues:	
Federal and state grants	100,699
Total non-operating revenues	100,699
Change in net assets	(203,563)
Net assets at beginning of period.	-
Net assets (deficit) at end of period.	$ (203,563)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HARVARD AVENUE COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE PERIOD SEPTEMBER 5, 2006 THROUGH JUNE 30, 2007

Cash flows from operating activities:		
Cash received from state foundation	$	2,322,487
Cash received from other operations		11,582
Cash payments for salaries and wages		(13,449)
Cash payments for fringe benefits		(73,711)
Cash payments to suppliers for goods and services. . .		(2,300,943)
Cash payments for other expenses		(228)
Net cash used in operating activities		(54,262)
Cash flows from noncapital financing activities:		
Federal and state grants.		84,965
Net cash provided by noncapital financing activities		84,965
Net increase in cash and cash equivalents		30,703
Cash and cash equivalents at beginning of period. . .		-
Cash and cash equivalents at end of period	$	30,703
Reconciliation of operating loss to net cash used in operating activities: operating activities:		
Operating loss	$	(304,262)
Changes in assets and liabilities:		
Increase in accounts payable		250,000
Net cash used in operating activities	$	(54,262)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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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-5. 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 intructional/support facility staffed by employees of the management company who provide services to 328 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.

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 resourced 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. The School did not have any investments during the period ended June 30, 2007.

F. 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.

G. Intergovernmental Revenues

The School currently participates in the State Foundation, EMIS Subsidy, Special Education IDEA, Title I Targeted Assistance, Title II-A Improving Teacher Quality, Title II-D Technology, Federal Meal Reimbursement, and Public Charter Schools Programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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 Academy on a reimbursement basis. Federal and State grant revenue for the period ended June 30, 2007 was $100,699.

H. 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.

I. Estimates

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

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. At June 30, 2007, the carrying amount of the School's deposits was $30,703 and the bank balance was $42,910. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 4 - RECEIVABLES

At June 30, 2007, receivables consisted of an intergovernmental receivable of $15,734 in federal reimbursements for the food service program. The receivable is expected to be collected in full within one year.

NOTE 5 - PENSION PLANS

A. School Employees Retirement System

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 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

NOTE 5 - PENSION PLANS - (Continued)

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for fiscal year ended 2007 were $18,450; 100 percent has been contributed for the period ended June 30, 2007.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, 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 recommendation 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 fund pension obligations to STRS Ohio for the fiscal year ended June 30, 2007 were $55,036; 100 percent has been contributed for the period ended June 30, 2007.

NOTE 6 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $550 for the period ended June 30, 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was $3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were $282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer’s SERS salaries. For the period ended June 30, 2007 the School paid $613 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of $295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 7 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2007, the School maintained general liability insurance with a $1,000,000 single occurrence limit and $3,000,000 annual aggregate and an umbrella policy extending coverage as broad as primary coverage in the amount of $5,000,000. The School also maintains directors and officers liability/errors and omissions coverage in the amount of $1,000,000 per occurrence.

NOTE 8 - PURCHASED SERVICES

For the period ended June 30, 2007, purchased services expenses were as follows:

Professional and Technical Services	$	2,441,268
Property Services		109,675
Total	$	2,550,943

NOTE 9 - 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 Oho 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 $69,675 for services during the period ended June 30, 2007.

NOTE 9 - CONTRACTS - (Continued)

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 sources 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

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 $2,176,762 during the period ended June 30, 2007.

The School owes Imagine Schools, Inc. $250,000 at June 30, 2007, which represents the balance outstanding of the $250,000 Development Allocation fee per the contract.

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 $40,000 in service fees for the period ended June 30, 2007.

NOTE 10 - MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2007, Imagine Schools, Inc. incurred the following expenses on behalf of the School:

Salaries and wages	$ 775,230
Employee benefits	172,448
Purchased services	103,768
Materials and supplies	144,761
Capital outlay	840,689
Miscellaneous - Direct	90,024
Other uses of funds	57,908
Total	$ 2,184,828

NOTE 11 - OPERATING LEASES

The School entered into a lease agreement on August 5, 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. The School 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 12 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

C. 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.

NOTE 13 - MANAGEMENT PLAN

The School had an operating loss and deficit net assets of $203,563 at June 30, 2007. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies, in addition to paying down the $250,000 Development Allocation Fee.

NOTE 14 - FEDERAL TAX STATUS

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

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 period September 5, 2006 through June 30, 2007, wherein we noted the school incurred an operating loss in the amount of $304,262, and a net loss of $203,563. 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 a certain matter that we reported to the School's management in a separate letter dated February 25, 2009.

Compliance and Other Matters

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 25, 2009

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
JUNE 23, 2009

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