



Mary Taylor, CPA  
Auditor of State



**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Klepinger Community School  
Montgomery County  
3650 Klepinger Road  
Dayton, Ohio 45416

To the Governing Board:

We have audited the accompanying basic financial statements of Klepinger Community School, Montgomery County, (the School), as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Klepinger Community School, Montgomery County, as of June 30, 2009, and the respective changes in 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 May 5, 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 *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

May 5, 2010

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

The discussion and analysis of the Klepinger 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.

The Management's Discussion and Analysis (the "MD&A") is an element of the 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 2009 are as follows:

- In total, net assets were \$34,950 at June 30, 2009.
- The School had operating revenues of \$1,202,454, operating expenses of \$1,425,503 and non-operating revenues of 257,999 for fiscal year 2009. The operating loss was \$223,049 in the School's first year of operations. The School also received federal and state grants of \$257,999 which resulted in the ending net assets of \$34,950.

### **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.

The first 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.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

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

The table below provides a summary of the School's net assets for the fiscal year ended June 30, 2009. This is the School's first year of operation, comparative information is not available.

<b>Net Assets</b>	
<b>Assets:</b>	
Current assets	\$54,499
Total Assets	54,499
 <b>Liabilities:</b>	
Current liabilities	19,549
Total Liabilities	19,549
 <b>Net Assets:</b>	
Unrestricted	34,950
Total Net Assets	\$34,950

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 \$34,950.

Current assets represent cash and intergovernmental receivables. Current liabilities of \$19,549 represent accounts payable for professional and legal services.

The table below shows the changes in net assets for fiscal year 2009. This is the School's first year of operation, comparative information is not available.

<b>Change in Net Assets</b>	
<b>Operating Revenue:</b>	
State foundation	\$1,202,454
Total Operating Revenue	1,202,454
 <b>Operating Expenses:</b>	
Purchased services	1,425,121
Other	382
Total Operating Expenses	1,425,503
 <b>Non-operating Revenue:</b>	
Federal and state grants	257,999
Total Non-operating Revenue	257,999
Change in Net Assets	34,950
Net Assets at beginning of year	
Net Assets at end of year	\$ 34,950

The School relies on state foundation revenues for operations, with 82.33 percent of total revenues coming from State foundation. Purchased services expenses include management fees, fiscal services, sponsor fees and legal fees, and make up 99.97 percent of total expenses.



**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**Debt**

The School had no debt obligations outstanding at June 30, 2009.

**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.

**Current Financial Related Activities**

The School is sponsored by St. Aloysius Orphanage. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

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

**Contacting the School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Robert Lotz, Treasurer, Charter School Specialists, 3650 Klepinger Road, Dayton, Ohio 45416-1919.

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**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2009**

<b>Assets:</b>	
<b>Current assets:</b>	
Cash	\$1,209
<b>Receivables:</b>	
Intergovernmental	<u>53,290</u>
Total assets	<u>54,499</u>
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable	<u>19,549</u>
Total current liabilities	<u>19,549</u>
Total liabilities	<u>19,549</u>
<b>Net Assets:</b>	
Unrestricted	<u>34,950</u>
Total net assets	<u><u>\$34,950</u></u>

*See accompanying notes to the basic financial statements.*

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<b>Operating revenues:</b>	
State foundation	<u>\$1,202,454</u>
Total operating revenue	<u>1,202,454</u>
<b>Operating expenses:</b>	
Purchased services	1,425,121
Other	<u>382</u>
Total operating expenses	<u>1,425,503</u>
Operating loss	<u>(223,049)</u>
<b>Non-operating revenues:</b>	
Federal and state grants	<u>257,999</u>
Total non-operating revenues	<u>257,999</u>
Change in net assets	34,950
Net assets at beginning of year	
Net assets at end of year	<u><u>\$34,950</u></u>

*See accompanying notes to the basic financial statements.*

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<b>Cash flows from operating activities:</b>	
Cash received from state foundation	\$1,202,454
Cash payments for purchased services	(1,405,572)
Cash payments for other expenses	(382)
Net cash used in operating activities	<u>(203,500)</u>
<b>Cash flows from non-capital financing activities:</b>	
Federal and state grants	<u>204,709</u>
Net cash provided by non-capital financing activities	<u>204,709</u>
Net increase in cash and cash equivalents	1,209
Cash and cash equivalents at beginning of year	
Cash and cash equivalents at end of year	<u><u>1,209</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	(223,049)
<b>Changes in assets and liabilities:</b>	
Increase in accounts payable	<u>19,549</u>
Net cash used in operating activities	<u><u>(\$203,500)</u></u>

*See accompanying notes to the basic financial statements.*

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**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL**

The Klepinger 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 safe and secure learning community that will equip children to achieve academic excellence and personal growth. The focus is on students residing in the Dayton City 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 St. Aloysius Orphanage (the "Sponsor") commencing on April 10, 2008 and ending on June 30, 2010. Thereafter, the contract will be extended for additional one year terms subject to terms of the contract from July 1 to June 30, unless terminated or non-renewed as stated in the contract. 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 must contain at least five 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 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 156 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements 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.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting**

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

**D. Budgetary Process**

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Section 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.

**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, 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.



**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, Special Education, 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 \$1,202,454.

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 \$257,999.

**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.

**3. DEPOSITS**

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2009, the carrying amount of the School's deposits was \$1,209 and the bank balance was \$1,209. 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.

**4. RECEIVABLES**

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

<u>Intergovernmental receivable:</u>	<u>Amount</u>
Title I	\$16,105
Ohio Department of Education	
Adjustment	<u>37,185</u>
Total receivables	<u>\$53,290</u>

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**5. PENSION PLANS**

The School has contracted with Imagine Schools, Inc. to provide employee services and to pay those employees (see Note 9.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](http://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 year ended June 30, 2009 were \$5,194; 100 percent has been contributed for fiscal year 2009.

**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](http://www.strsoh.org).

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

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**5. PENSION PLANS (Continued)**

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 year ended June 30, 2009 were \$35,635; 100 percent has been contributed for fiscal year 2009.

**6. 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 surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**6. POSTEMPLOYMENT BENEFITS (Continued)**

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

The School's contributions for health care for the fiscal year ended June 30, 2009 were \$2,377; 100 percent has been contributed for fiscal year 2009.

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 were \$429; 100 percent has been contributed for fiscal year 2009.

**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](http://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 year ended June 30, 2009 were \$2,741; 100 percent has been contributed for fiscal year 2009.

**7. RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School maintained the following general liability, automobile liability, and excess/umbrella liability through Philadelphia Indemnity Insurance Co. and school leader's liability through Marsh USA, Inc.:

<u>Coverage</u>	<u>Limits of Coverage</u>
<b>General Liability:</b>	
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
<b>Automobile liability:</b>	
Combined single limit – each accident	1,000,000

(Continued)

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**7. RISK MANAGEMENT (Continued)**

Coverage	Limits of Coverage
<b>Excess/umbrella liability:</b>	
Each occurrence	10,000,000
Aggregate	10,000,000
 <b>School leader's liability:</b>	
Errors and omissions	10,000,000
Directors and officers/employer	3,000,000
Retention	50,000

**8. PURCHASED SERVICES**

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

Professional and technical services	\$1,425,121
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Professional and technical services include management services, fiscal services, sponsor fees, and legal fees.

**9. CONTRACTS**

**A. Sponsor Contract**

The School entered into a sponsorship contract commencing on April 10, 2008 and ending on June 30, 2010 with St. Aloysius Orphanage (the "Sponsor") for its establishment. Thereafter, the contract will be extended for additional one year terms subject to terms of the contract from July 1 to June 30, unless terminated or non-renewed as stated in the contract. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the laws applicable to the School and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis;
- Provide reasonable technical assistance to the School in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the School);
- Take steps to intervene in the School's operation to correct problems in the School's overall performance, declare the School to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year; and
- Abide by the requirements of its contract with the Ohio Department of Education, even should those requirements affect the School.

The School paid the Sponsor \$36,074 for services during fiscal year 2009.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

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

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 \$851,922 during fiscal year 2009, which includes \$16,105 reported in accounts payable.

**C. Service Contract**

The School entered into a service contract with Charter School Specialists, LLC (CSS), for a period of fifteen months, commencing on July 1, 2008, to provide fiscal, student data, and Comprehensive Continuous Planning (CCIP) consulting services. The School paid CSS \$39,166 in service fees for fiscal year 2009.

**10. 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	\$ 387,568
Employees' benefits	88,310
Purchased services	286,100
Supplies and materials	171,623
Capital outlay	119,894
Other direct costs	101,957
Total expenses	<u>\$1,155,452</u>

Overhead charges included in other direct costs are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the School. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

**KLEPINGER COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

**11. OPERATING LEASE**

The School entered into a lease agreement on October 1, 2008, with Schoolhouse Finance, LLC to lease classroom space for the School. The term of the lease commenced September 1, 2008, and shall continue through June 30, 2023. 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. The School shall pay to Schoolhouse Finance, LLC \$696,960 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term.

On March 12, 2009, an amendment was made to the lease that lowered the annual base rent payable to \$642,721. The School made \$535,600 in payments to Schoolhouse Finance, LLC during fiscal year 2009.

**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, 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. The School will receive \$37,185 due to a FTE Adjustment for fiscal year 2009, as a result of the Ohio Department of Education reviews. This amount is reflected as a receivable for the School.

**13. FEDERAL TAX STATUS**

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

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# Mary Taylor, CPA

Auditor of State

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

Klepinger Community School  
Montgomery County  
3650 Klepinger Road  
Dayton, Ohio 45416

To the Governing Board:

We have audited the financial statements of Klepinger Community School, Montgomery County, (the School) as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 5, 2010. 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 May 5, 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 intend this report solely for the information and use of the audit committee, management, Governing Board, and the Community School's sponsor. We intend it for no one other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

May 5, 2010



# Mary Taylor, CPA

Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedures

Klepinger Community School  
Montgomery County  
3650 Klepinger Road  
Dayton, Ohio 45416

To the Governing Board:

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 Klepinger 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 August 20, 2008 within their Parent/Student handbook.
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 district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district 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

May 5, 2010



**Mary Taylor, CPA**  
Auditor of State

**KLEPINGER COMMUNITY SCHOOL**

**MONTGOMERY 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 1, 2010**