



Dave Yost • Auditor of State

CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Clay Avenue Community School
Lucas County
1030 Clay Avenue
Toledo, Ohio 43608-2167

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Clay Avenue Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clay Avenue Community School, Lucas County, Ohio as of June 30, 2013, and the

changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the School adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the 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 financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 21, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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, 2013. 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 2013 are as follows:

- In total, net position was a deficit of \$80,196 at June 30, 2013.
- The School had operating revenues of \$3,834,420, operating expenses of \$4,574,448 and non-operating revenues and expenses of \$909,820 and \$24,045, respectively, for fiscal year 2013.

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 position* and *statement of revenues, expenses and changes in net position* 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 Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of revenues, expenses and changes in net position 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 position* and changes in those assets. This change in net position 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.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

The table below provides a comparative analysis of fiscal years 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current assets	\$ 61,013	\$ 256,022
Total assets	<u>61,013</u>	<u>256,022</u>
<u>Liabilities</u>		
Current liabilities	60,674	250,475
Long-term liabilities	<u>80,535</u>	<u>231,490</u>
Total liabilities	<u>141,209</u>	<u>481,965</u>
<u>Net Position</u>		
Unrestricted (deficit)	<u>\$ (80,196)</u>	<u>\$ (225,943)</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School's net position totaled a deficit of \$80,196, compared to a deficit of \$225,943 at June 30, 2012.

The School reported an intergovernmental receivable for grants at June 30, 2013 and June 30, 2012 in the amount of \$59,324 and \$182,332, respectively. As a result of the full-time equivalency (FTE) reviews by the Ohio Department of Education at June 30, 2012, an intergovernmental receivable in the amount of \$71,380 was reported. The fiscal year 2013 FTE review has not been completed as of the date of this report (see Note 14.B for detail). At June 30, 2012, an intergovernmental receivable was also reported for a refund from the School Employees Retirement System in the amount of \$448.

Current liabilities represent accounts payable and intergovernmental payables 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). The School paid \$150,955 down in principal on the Development Allocation fee liability during fiscal year 2013, contributing directly to the increase in net position from fiscal year 2012 to 2013.

**CLAY AVENUE COMMUNITY SCHOOL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

The table below shows the changes in net position for fiscal years 2013 and 2012.

Change in Net Position

	<u>2013</u>	<u>2012</u>
<u>Operating Revenues:</u>		
Sales	\$ 14	\$ 1,813
State foundation	<u>3,834,406</u>	<u>3,391,602</u>
Total operating revenue	<u>3,834,420</u>	<u>3,393,415</u>
<u>Operating Expenses:</u>		
Purchased services	4,247,143	4,204,088
Operating lease payments	317,930	259,076
Other	<u>9,375</u>	<u>11,435</u>
Total operating expenses	<u>4,574,448</u>	<u>4,474,599</u>
<u>Non-operating Revenues (Expenses):</u>		
Federal and State grants	898,881	1,112,748
Other non-operating revenue	10,939	-
Interest expense	<u>(24,045)</u>	<u>(24,636)</u>
Total non-operating revenues (expenses)	<u>885,775</u>	<u>1,088,112</u>
Change in net position	145,747	6,928
Net position (deficit) at beginning of year	<u>(225,943)</u>	<u>(232,871)</u>
Net position (deficit) at end of year	<u>\$ (80,196)</u>	<u>\$ (225,943)</u>

State foundation revenue and overall operating expenses increased as a result of increased enrollment from 463 students in fiscal year 2012 to 513 students in fiscal year 2013. The School received Federal grant monies through the Child Nutrition Breakfast & Lunch, Title VI-B, Title I, Technology Plan, Improving Teacher Quality and Race to the Top programs during fiscal year 2013. The School received its first payment of \$10,939 in tax revenue from casino profits in January 2013, which is reported as other non-operating revenue.

Debt

At June 30, 2013, the School had \$80,535 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, 2013, or June 30, 2012.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

State could result in budgetary cuts to education, which would have a negative impact on the School.

Current Financial Related Activities

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

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

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Arlene Wilson, Treasurer, Charter School Specialists, 1030 Clay Avenue, Toledo, Ohio 43608.

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

STATEMENT OF NET POSITION
JUNE 30, 2013

Assets:	
Current assets:	
Cash	\$ 1,689
Receivables:	
Intergovernmental	<u>59,324</u>
Total assets.	<u>61,013</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	60,633
Intergovernmental payable	<u>41</u>
Total current liabilities.	<u>60,674</u>
Long-term liabilities:	
Due within one year.	22,605
Due in more than one year	<u>57,930</u>
Total long-term liabilities	<u>80,535</u>
Total liabilities	<u>141,209</u>
 Net position:	
Unrestricted (deficit).	<u><u>\$ (80,196)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating revenues:	
Sales	\$ 14
State foundation	3,834,406
Total operating revenues	<u>3,834,420</u>
 Operating expenses:	
Purchased services	4,247,143
Operating lease payments	317,930
Other.	9,375
Total operating expenses	<u>4,574,448</u>
 Operating loss	 <u>(740,028)</u>
 Non-operating revenues (expenses):	
Federal and State grants	898,881
Other non-operating revenue	10,939
Interest expense	(24,045)
Total nonoperating revenues (expenses)	<u>885,775</u>
 Change in net position	 145,747
 Net position (deficit) at beginning of year . .	 <u>(225,943)</u>
 Net position (deficit) at end of year.	 <u>\$ (80,196)</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, 2013

Cash flows from operating activities:	
Cash received from sales	\$ 143
Cash received from state foundation	3,905,786
Cash payments for purchased services.	(4,436,523)
Cash payments for operating lease.	(317,930)
Cash payments for other expenses.	(9,348)
	(857,872)
Net cash used in operating activities.	(857,872)
 Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	1,021,889
Cash received from other non-operating revenue	10,939
Principal retirement	(150,955)
Interest expense	(24,045)
	857,828
Net cash provided by noncapital financing activities	857,828
Net decrease in cash	(44)
 Cash at beginning of year.	 1,733
Cash at end of year	\$ 1,689
	1,689
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (740,028)
Changes in assets and liabilities:	
Decrease in accounts receivable.	129
Decrease in intergovernmental receivable.	71,828
(Decrease) in accounts payable	(164,476)
(Decrease) in intergovernmental payable	(25,325)
	(117,844)
Net cash used in operating activities	\$ (857,872)

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, 2013**

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-8 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 contract with the Sponsor was renewed on June 27, 2012 for a period of three years commencing on July 1, 2012 and ending on June 30, 2015. 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. 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 513 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's significant accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, 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 position, 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 position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the School finances meet its cash flow needs.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 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 position. 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 2013.

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, 2013.

G. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School 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 position is available.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the Parity Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2013 school year totaled \$3,834,406.

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 2013 was \$898,881.

I. Accrued Liabilities and Long-Term Obligations

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

J. Operating Revenues and Expenses

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

K. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2013, the School has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had no effect on the financial statements of the School.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 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, 2013, the carrying amount of the School's deposits was \$1,689 and the bank balance was \$11,539. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS- (Continued)

There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES/PAYABLES

Receivables at June 30, 2013, consisted of intergovernmental receivables arising from grants and entitlements and amounts due from other governments. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	Amount
Federal breakfast and lunch reimbursement	\$ 6,637
Title VI-B	19,259
Title I	9,111
Medicaid School Program reimbursement	24,317
Total intergovernmental receivables	\$ 59,324

Under the terms of the operating contract with Imagine Schools, Inc. (See Note 11.B for detail), the School has recorded accounts payable to Imagine Schools, Inc. in the amount of \$59,324 for 100 percent of any State and Federal reimbursement monies uncollected or unpaid as of June 30, 2013.

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 \$150,955 and \$24,045 in principal and interest payments, respectively, on the balance of the Development Allocation fee during 2013. A long-term liability has been reported on the basic financial statements. A summary of the Development Allocation fee liability during fiscal year 2013 follows:

	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Due Within One Year
Development Allocation Fee	\$ 231,490	\$ -	\$ (150,955)	\$ 80,535	\$ 22,605

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - LONG-TERM LIABILITIES – (Continued)

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

Fiscal Year Ending,	Principal	Interest	Total
2014	\$ 22,605	\$ 7,395	\$ 30,000
2015	25,099	4,901	30,000
2016	27,867	2,133	30,000
2017	4,964	36	5,000
Total	<u>\$ 80,535</u>	<u>\$ 14,465</u>	<u>\$ 95,000</u>

NOTE 7 - PENSION PLANS

The School has contracted with Imagine (See Note 11.B.) to provide employee services and to pay those employees. 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 the systems noted as follows:

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, disability, survivor 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 "Employers/Audit Resources".

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 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$54,339, \$41,402 and \$24,487, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - Imagine Schools, Inc., on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications". New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2013, 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, 2013, 2012 and 2011 were \$193,655, \$131,848 and \$153,688, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$18,025 made by the School and \$12,875 made by the plan members.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - Imagine Schools, Inc., on behalf of the School, participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$664, \$1,793 and \$2,965, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)

was 0.74 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,070, \$2,445 and \$1,576, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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, under "Publications" 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 2013, 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, 2013, 2012 and 2011 were \$14,897, \$10,142 and \$11,822, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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 2013, the School maintained the following coverage: general liability, personal property liability, automobile liability, and excess/umbrella liability through Philadelphia Indemnity Insurance Co.; and workers compensation and employers' liability through the Twin City Fire Insurance Co.

<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
Personal property liability:	
Limit	300,000
Deductible/coinsurance	5,000
Coinsurance	90%
Automobile liability:	
Combined single limit - each accident	1,000,000

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - RISK MANAGEMENT – (Continued)

Coverage - (Continued)	Limits of Coverage
Excess/umbrella liability:	
Each occurrence	\$15,000,000
Aggregate	15,000,000
Retention	10,000
Workers compensation and employers' liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior fiscal year.

NOTE 10 - PURCHASED SERVICES

For fiscal year 2013, purchased services expenses were as follows:

Purchased services expenses:	
Management fees	\$ 4,066,366
Sponsorship fees	120,969
Legal	22,843
Professional and fiscal services	<u>36,965</u>
Total	<u>\$ 4,247,143</u>

NOTE 11 - CONTRACTS

A. Sponsor Contract

The School entered into a contract with The Ohio Council of Community Schools (the "Sponsor") commencing on March 14, 2007 for a period of five years and ending on June 30, 2012. The contract with the Sponsor was renewed on June 27, 2012 for a period of three years commencing on July 1, 2012 and ending on June 30, 2015. 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;

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 11 - CONTRACTS - (Continued)

- 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 \$120,969 for services during fiscal year 2013.

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 percent of the total per pupil allowance received from the State of Ohio and 100 percent 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 \$4,066,366 during fiscal year 2013.

C. Service Contract

The School entered into a service contract for a period of twelve months, commencing on July 1, 2012 and ending on June 30, 2013, with Charter School Specialists, LLC (CSS), to provide fiscal and Comprehensive Continuous Improvement Planning consulting services. The School paid CSS \$32,965 during fiscal year 2013 for these services.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 12 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2013, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

<u>Expenses</u>	<u>2013</u>
Direct Expenses:	
Salaries and wages	\$ 1,715,010
Employees' benefits	609,214
Purchased services	1,258,835
Supplies and materials	133,268
Capital outlay	90,994
Other direct costs	184,756
Indirect Expenses	<u>483,568</u>
Total expenses	<u>\$ 4,475,645</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.

NOTE 13 - OPERATING LEASES

On June 30, 2009, the School entered into a lease agreement with Schoolhouse Finance, LLC ("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. The School 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. The base rent shall escalate annually on July 1 at a rate equal to the greater of the increase in the overall Consumer Price Index All-Urban Consumers, all items less food and energy, and three percent.

The School entered into a sublease agreement on June 1, 2011, with SHF to lease additional classroom space for the School. The term of the sublease commenced June 1, 2011, and will continue through June 30, 2014. Notwithstanding any provision to the contrary, the sublease shall automatically terminate upon the expiration or termination of the lease for any reason. For the first month of the term the School shall pay to SHF base rent in the amount of \$7,200. Thereafter, the School shall pay monthly base rent in the amount of \$14,400. Base rent is payable in advance in monthly installments on the fifteenth day of each month of the term.

The School made \$317,930 in payments to SHF during fiscal year 2013.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013.

B. State Foundation Funding

The Ohio Department of Education (ODE) 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 fiscal year 2013 review has not been completed as of the date of this report; however, the School does not anticipate a material impact on the financial statements as a result of the review.

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 15 - MANAGEMENT PLAN

The School had a deficit net position of \$80,196 at June 30, 2013. Management intends to eliminate the deficit by increasing enrollment and improving operating efficiencies, in addition to paying down the Development Allocation Fee (described in Note 6). The School paid down an additional \$145,000 on the principal balance of the Development Allocation Fee long-term liability during fiscal year 2013, which contributed to the increase in net position of \$145,747. 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 FISCAL YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$ 112,260	\$ 113,096
National School Lunch Program	10.555	238,874	244,675
<i>Total Child Nutrition Cluster</i>		<u>351,134</u>	<u>357,771</u>
Fresh Fruit and Vegetable Program	10.582	<u>18,017</u>	<u>22,240</u>
Total U.S. Department of Agriculture		<u>369,151</u>	<u>380,011</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Special Education Grants to States (IDEA Part B)	84.027	89,812	100,586
Title I Grants to Local Educational Agencies	84.010	384,140	349,022
Race to the Top - ARRA	84.395	2,032	180
Ed Jobs	84.410	25,365	
Education Technology	84.318	3,039	3,204
Improving Teacher Quality State Grants	84.367	<u>9,464</u>	<u>7,867</u>
Total U.S. Department of Education		<u>513,852</u>	<u>460,859</u>
Total Federal Awards Receipts and Expenditures		<u>\$ 883,003</u>	<u>\$ 840,870</u>

The accompanying notes are an integral part of this schedule.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports Clay Avenue Community School (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 School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Student 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.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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 43608-2167

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Clay Avenue Community School, Lucas County, Ohio (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 21, 2014, wherein we noted the School implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

February 21, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Clay Avenue Community School
Lucas County
1030 Clay Avenue
Toledo, Ohio 43608-2167

To the Governing Board:

Report on Compliance for Each Major Federal Program

We have audited Clay Avenue Community School, Lucas County, Ohio (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the School's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the School's major federal program.

Management's Responsibility

The School's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on the Major Federal Program

In our opinion, Clay Avenue Community School complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 21, 2014

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<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 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 significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program CFDA #10.553, National School Lunch Program CFDA# 10.555
<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?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Clay Avenue Community School
Lucas County
1030 Clay Avenue
Toledo, Ohio 43608-2167

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

We noted the Board amended its anti-harassment policy at its meeting on May 24, 2010 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

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 the School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 21, 2014

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Dave Yost • 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
MARCH 20, 2014**