



Dave Yost • Auditor of State

CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Clay Avenue Community School, Lucas County, Ohio (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the management company's expenses which totaled \$3,873,217 as indicated in Note 12. Other auditors audited these amounts and have furnished their report thereon to us and we based our opinion, insofar as it relates to the amounts included for Note 12, on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Clay Avenue Community School, Lucas County, Ohio, as of June 30, 2012, and the 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 March 20, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information 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 basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 20, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The discussion and analysis of 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, 2012. 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 2012 are as follows:

- In total, net assets were a deficit of \$225,943 at June 30, 2012.
- The School had operating revenues of \$3,393,415, operating expenses of \$4,474,599 and non-operating revenues and expenses of \$1,112,748 and \$24,636, respectively, for fiscal year 2012.

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 2012?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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 in this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The table below provides a comparative analysis of fiscal years 2012 and 2011:

Net Assets		
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets	\$ 256,022	\$ 157,396
<u>Liabilities</u>		
Current liabilities	250,475	153,413
Long-term liabilities	231,490	236,854
Total liabilities	481,965	390,267
<u>Net Assets</u>		
Unrestricted (deficit)	\$ (225,943)	\$ (232,871)

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

The School reported an intergovernmental receivable for grants at June 30, 2012 and June 30, 2011 in the amount of \$182,332 and \$150,108, respectively. As a result of the full-time equivalency reviews by the Ohio Department of Education at June 30, 2012 and June 30, 2011, intergovernmental receivables in the amount of \$71,380 and \$5,760, respectively, were reported (see Note 15.B for detail). At June 30, 2012 the School reported an intergovernmental receivable in the amount of \$448 for refunds due from the School Employees Retirement System.

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 \$5,364 down in principal during fiscal year 2012.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2012 and 2011.

Change in Net Assets		
	2012	2011
<u>Operating Revenues:</u>		
Sales	\$ 1,813	\$ 2,515
State foundation	3,391,602	2,406,626
Other		5,292
Total operating revenue	3,393,415	2,414,433
<u>Operating Expenses:</u>		
Purchased services	4,204,088	3,481,188
Operating lease payments	259,076	108,520
Other	11,435	11,024
Total operating expenses	4,474,599	3,600,732
<u>Non-operating Revenues (Expenses):</u>		
Federal and State grants	1,112,748	1,194,381
Interest expense	(24,636)	(25,169)
Total non-operating revenues (expenses)	1,088,112	1,169,212
Change in net assets	6,928	(17,087)
Net assets (deficit) at beginning of year	(232,871)	(215,784)
Net assets (deficit) at end of year	\$ (225,943)	\$ (232,871)

State foundation revenue and overall operating expenses increased as a result of increased enrollment from 344 students in fiscal year 2011 to 463 students in fiscal year 2012. During fiscal year 2012, the School received State monies through the State fiscal stabilization fund and Federal grant monies through the American Recovery and Reinvestment Act, the Child Nutrition, National School Breakfast, Title VI-B, Title I, Drug-Free and Education Jobs programs.

Debt

At June 30, 2012, the School had \$231,490 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, 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 State could result in budgetary cuts to education, which would have a negative impact on the School.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

Current Financial Related Activities

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

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

Contacting the School's Financial Management

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

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

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

Assets:	
Current assets:	
Cash	\$ 1,733
Receivables:	
Accounts	129
Intergovernmental	<u>254,160</u>
 Total assets.	 <u>256,022</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	225,109
Intergovernmental payable	<u>25,366</u>
 Total current liabilities.	 <u>250,475</u>
 Long-term liabilities:	
Due within one year.	5,955
Due in more than one year	<u>225,535</u>
 Total long-term liabilities	 <u>231,490</u>
 Total liabilities	 <u>481,965</u>
 Net assets:	
Unrestricted (deficit).	<u><u>\$ (225,943)</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 ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Operating revenues:	
Sales	\$ 1,813
State foundation	3,391,602
Total operating revenues	<u>3,393,415</u>
 Operating expenses:	
Purchased services	4,204,088
Operating lease payments	259,076
Other	11,435
Total operating expenses	<u>4,474,599</u>
 Operating loss	 <u>(1,081,184)</u>
 Non-operating revenues (expenses):	
Federal and State grants	1,112,748
Interest expense.	(24,636)
Total non-operating revenues (expenses).	<u>1,088,112</u>
 Change in net assets	 6,928
 Net assets (deficit) at beginning of year	 <u>(232,871)</u>
 Net assets (deficit) at end of year	 <u>\$ (225,943)</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, 2012**

Cash flows from operating activities:	
Cash received from sales.	\$ 1,684
Cash received from state foundation.	3,325,982
Cash payments for purchased services.	(4,100,510)
Cash payments for operating lease.	(259,076)
Cash payments for other expenses	<u>(11,421)</u>
Net cash used in operating activities	<u>(1,043,341)</u>
Cash flows from noncapital financing activities:	
Cash received from Federal and State grants	<u>1,073,546</u>
Cash flows from capital and related financing activities:	
Principal retirement	(5,364)
Interest expense	<u>(24,636)</u>
Net cash used in capital and related financing activities.	<u>(30,000)</u>
Net increase in cash	205
Cash at beginning of year	<u>1,528</u>
Cash at end of year.	<u><u>\$ 1,733</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (1,081,184)
Changes in assets and liabilities:	
(Increase) in accounts receivable	(129)
(Increase) in intergovernmental receivable	(66,068)
Increase in accounts payable.	78,674
Increase in intergovernmental payable	<u>25,366</u>
Net cash used in operating activities	<u><u>\$ (1,043,341)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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. No member of the Governing Board shall serve on the Governing Boards of more than two start-up community schools at the same time. 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 463 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) guidance 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 guidance issued after November 30, 1989. The School's significant accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The School uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the School finances meet its cash flow needs.

C. Basis of Accounting

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

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.39 of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash

Cash received by the School is reflected as "cash" on the statement of net assets. Unless otherwise noted, all monies received by the School are pooled and deposited in a central bank account as demand deposits. The School did not have any investments during fiscal year 2012.

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, 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the Parity Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2012 school year totaled \$3,391,602.

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 2012 was \$1,112,748.

I. Accrued Liabilities and Long-Term Obligations

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

J. Operating Revenues and Expenses

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

K. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2012, the School has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the School.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 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, 2012, the carrying amount of the School's deposits was \$1,733 and the bank balance was \$9,662. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES/PAYABLES

Receivables at June 30, 2012, consisted of accounts receivable and 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:	<u>Amount</u>
Federal breakfast and lunch reimbursement	\$ 37,847
Medicaid School Program reimbursement	14,372
Race to the Top, ARRA	2,032
Title VI-B	8,485
Title I	94,230
Education Jobs	25,366
Ohio Department of Education - FY12 enrollment and full-time equivalency adjustment	71,380
SERS refund	<u>448</u>
Total intergovernmental receivables	<u>\$ 254,160</u>

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 \$156,966 for 100 percent of any State and Federal grant monies uncollected or unpaid as of June 30, 2012, \$448 for 100 percent of the School Employees Retirement System (SERS) refund, and \$64,242 for 90 percent of the amount of the Ohio Department of Education full-time equivalency adjustment at June 30, 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 5 - RECEIVABLES/PAYABLES - (Continued)

Under the terms of the employee lease agreement with Great Western Academy (see Note 14 for detail), the School has recorded an intergovernmental payable in the amount of \$25,366, for 100 percent of any Education Jobs program grant monies uncollected or unpaid as of June 30, 2012.

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 \$5,364 and \$24,636 in principal and interest payments, respectively, on the balance of the Development Allocation fee during 2012. A long-term liability has been reported on the basic financial statements. A summary of the Development Allocation fee liability during fiscal year 2012 follows:

<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
\$ 236,854		\$ (5,364)	\$ 231,490	\$ 5,955

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

<u>Fiscal Year Ending,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,955	\$ 24,045	\$ 30,000
2014	6,612	23,388	30,000
2015	7,342	22,658	30,000
2016	8,151	21,849	30,000
2017	9,050	20,950	30,000
2018 - 2022	62,617	87,383	150,000
2023 - 2027	105,654	44,346	150,000
2028	26,109	1,391	27,500
Total	<u>\$ 231,490</u>	<u>\$ 246,010</u>	<u>\$ 477,500</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:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 7 - PENSION PLANS- (Continued)

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 2012, 12.65 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, 2012, 2011 and 2010 were \$41,402, \$24,487 and \$30,427, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 7 - PENSION PLANS - (Continued)

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 2012, 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, 2012, 2011 and 2010 were \$131,848, \$153,688 and \$108,977, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$11,669 made by the School and \$8,335 made by the plan members.

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 premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 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,

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2012, 0.55 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 2012, the actuarially determined amount was \$35,800.

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, 2012, 2011 and 2010 were \$1,793, \$2,965 and \$1,095, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, 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, 2012, 2011, and 2010 were \$2,445, \$1,576 and \$1,809, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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 2011, 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, 2012, 2011 and

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)

2010 were \$10,142, \$11,822 and \$8,383, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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 2012, the School maintained the following coverage: general liability, building liability, automobile liability, excess/umbrella liability, crime liability, and property liability through Philadelphia Indemnity Insurance Co.; workers compensation through the Twin City Fire Insurance Co.; and school leader's liability through the National Fire Union of Pennsylvania.

<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
Building liability:	
Building	1,000,000
Improvements/betterments	300,000
Personal property limit	300,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Retention	10,000
Crime liability	1,000,000
Workers compensation and employers liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000
School leader's liability:	
Directors and officers/errors and omissions	3,000,000

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 10 - PURCHASED SERVICES

For fiscal year 2012, purchased services expenses were as follows:

Purchased services expenses:

Management fees	\$ 4,038,266
Sponsorship fees	102,863
Legal	26,268
Professional and fiscal services	<u>36,691</u>
Total	<u><u>\$ 4,204,088</u></u>

NOTE 11 - CONTRACTS

A. Sponsor Contract

The School entered into a five-year contract commencing on March 14, 2007 and continuing through June 30, 2012 with The Ohio Council of Community Schools (the "Sponsor") for its establishment. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with applicable laws and the terms of the contract;
- Monitor and evaluate the academic, fiscal performance and the organization and operation of the School;
- Report annually the results of its evaluation to the Department of Education and to the parents of students enrolled in the school;
- Submit a report by November 1 of each year to the Department of Education describing the special education and related services provided by the School and the School's expenditures for those services;
- Provide technical assistance to the School in complying with applicable laws and this contract;
- Intervene as the Sponsor deems necessary in the School's operation to correct problems in the School's overall performance (including but not limited to exercising its right to place the School on probation under Ohio Revised Code Section 3314.073 or to suspend or terminate the School under Ohio Revised Code Section 3314.07 or 3314.72);
- Prepare and assist with contingency plans in the event the School experiences financial difficulties or closes before the end of the school year.

The School paid the Sponsor \$102,863 for services during fiscal year 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 11 - 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 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 \$4,004,017 during fiscal year 2012.

C. Service Contract

The School entered into a service contract for a period of twenty-four months, commencing on July 1, 2010 and ending on June 30, 2012, with Charter School Specialists, LLC (CSS), to provide fiscal and Comprehensive Continuous Planning consulting services. The School paid CSS \$32,957 during fiscal year 2012 for these services.

NOTE 12 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2012, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

<u>Expenses</u>	<u>2012</u>
Direct Expenses:	
Salaries and wages	\$ 1,450,547
Employees' benefits	468,683
Purchased services	1,308,988
Supplies and materials	184,217
Capital outlay	3,635
Other direct costs	45,696
Indirect Expenses	<u>411,451</u>
Total expenses	<u>\$ 3,873,217</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 12 - MANAGEMENT COMPANY EXPENSES - (Continued)

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 \$259,076 in payments to SHF during fiscal year 2012.

NOTE 14 - EMPLOYEE LEASE AGREEMENT

The School entered into an Employee Lease Agreement with Great Western Academy on August 1, 2011, to lease employees qualified to perform on-site school services for the 2011-2012 school year. The School agreed to pay Great Western Academy an amount not to exceed the Education Jobs program funding allocation of \$152,262 for the services performed under the agreement.

NOTE 15 - 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 is subject to

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 15 - CONTINGENCIES – (Continued)

audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

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. As a result of the fiscal year 2012 reviews, the School is due \$71,380 from ODE. This amount has been reported as an intergovernmental receivable on the statement of net assets.

NOTE 16 - MANAGEMENT PLAN

The School had an operating loss of \$1,081,184 and deficit net assets of \$225,943 at June 30, 2012. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies, in addition to paying down the Development Allocation Fee (described in Note 6). Enrollment has increased and staffing efficiencies have been realized since staffing has been utilized to the fullest.

NOTE 17 - 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.

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**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$ 80,241	\$ 90,800
National School Lunch Program	10.555	157,932	179,758
<i>Total Child Nutrition Cluster</i>		<u>238,173</u>	<u>270,558</u>
Fresh Fruit and Vegetable Program	10.582	13,310	16,946
Total U.S. Department of Agriculture		<u>251,483</u>	<u>287,504</u>
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States (IDEA Part B)	84.027	32,152	36,536
Special Education Grants to States (IDEA Part B) - ARRA	84.391	4,800	
<i>Total Special Education Cluster</i>		<u>36,952</u>	<u>36,536</u>
<u>Title I Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	490,471	435,072
Title I Grants to Local Educational Agencies - ARRA	84.389	37,071	207
<i>Total Title I Cluster</i>		<u>527,542</u>	<u>435,279</u>
Ed Jobs	84.410	115,939	141,304
Safe and Drug-Free Schools and Communities State Grants	84.186	751	
Improving Teacher Quality State Grants	84.367	19,146	4,801
Total U.S. Department of Education		<u>700,330</u>	<u>617,920</u>
Total Federal Awards Receipts and Expenditures		<u>\$ 951,813</u>	<u>\$ 905,424</u>

The accompanying notes are an integral part of this schedule.

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School 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

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, 2012, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 20, 2013, which indicated that the amounts presented in Note 12 were audited by other auditors.

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 opinions 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*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 20, 2013.

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

March 20, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' 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

To the Governing Board:

Compliance

We have audited the compliance of Clay Avenue Community School, Lucas County, Ohio (the School), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the School's major federal program for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with these requirements.

In our opinion, Clay Avenue Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted matters involving internal control over federal compliance not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 20, 2013.

We intend this report solely for the information and use of the audit committee, management, Governing Board, the School's sponsor, others within the School, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 20, 2013

**CLAY AVENUE COMMUNITY SCHOOL
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any 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	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Cluster: Title I Grants to Local Educational Agencies - CFDA # 84.010; ARRA Title I Grants to Local Educational Agencies - CFDA #84.389
<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 AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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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
APRIL 4, 2013