



Dave Yost • Auditor of State



**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Harvard Avenue Community School  
Cuyahoga County  
12000 Harvard Avenue  
Cleveland, Ohio 44105

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Harvard Avenue Community School, Cuyahoga 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 the overall financial statement presentation.

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

**Opinion**

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

**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 Award 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 the Schedules 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 January 27, 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 style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 27, 2014

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**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

The discussion and analysis of the Harvard Avenue Community School's (the "School") financial performance provides an overall review of the School's financial activities for the 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 the basic 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 \$72,257 at June 30, 2013.
- The School had operating revenues of \$4,397,382, operating expenses of \$5,370,997 and non-operating revenues of \$975,806 for fiscal year 2013. Total change in net position was an increase of \$2,191.

**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. These statements can be found on pages 9 and 10 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

The table below provides a summary of the School's net position for the fiscal years ended June 30, 2013 and June 30, 2012.

|                            | <b>Net Position</b> |                  |                 |
|----------------------------|---------------------|------------------|-----------------|
|                            | <u>2013</u>         | <u>2012</u>      | <u>Variance</u> |
| <b><u>Assets</u></b>       |                     |                  |                 |
| Current assets             | \$ 199,437          | \$ 231,557       | \$ (32,120)     |
| Total assets               | <u>199,437</u>      | <u>231,557</u>   | <u>(32,120)</u> |
| <b><u>Liabilities</u></b>  |                     |                  |                 |
| Current liabilities        | <u>127,180</u>      | <u>161,491</u>   | <u>(34,311)</u> |
| Total liabilities          | <u>127,180</u>      | <u>161,491</u>   | <u>(34,311)</u> |
| <b><u>Net Position</u></b> |                     |                  |                 |
| Unrestricted               | <u>72,257</u>       | <u>70,066</u>    | <u>2,191</u>    |
| Total net position         | <u>\$ 72,257</u>    | <u>\$ 70,066</u> | <u>\$ 2,191</u> |

Over time, net position can serve as a useful indicator of the School's financial position. At June 30, 2013, the School's net position totaled \$72,257 compared to \$70,066 at June 30, 2012.

Current assets represent cash, accounts receivable, and intergovernmental receivables. The School reported intergovernmental receivables for grants at June 30, 2013 and June 30, 2012 in the amount of \$124,037 and \$152,843, respectively.

Current liabilities of \$127,180 and \$155,113 represent accounts payable and intergovernmental payables for professional services at June 30, 2013 and June 30, 2012, respectively. As a result of the full-time equivalency (FTE) review by the Ohio Department of Education at June 30, 2012, an intergovernmental payable in the amount of \$6,378 was reported. The fiscal year 2013 FTE review has not been completed as of the date of this report (see Note 13.B).

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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>Variance</u> |
|---------------------------------------|------------------|------------------|-----------------|
| <b><u>Operating Revenues:</u></b>     |                  |                  |                 |
| State foundation                      | \$ 4,397,382     | \$ 4,466,089     | \$ (68,707)     |
| Total operating revenue               | <u>4,397,382</u> | <u>4,466,089</u> | <u>(68,707)</u> |
| <b><u>Operating Expenses:</u></b>     |                  |                  |                 |
| Purchased services                    | 4,493,681        | 4,494,622        | (941)           |
| Operating lease payments              | 866,148          | 840,920          | 25,228          |
| Other                                 | <u>11,168</u>    | <u>10,090</u>    | <u>1,078</u>    |
| Total operating expenses              | <u>5,370,997</u> | <u>5,345,632</u> | <u>25,365</u>   |
| <b><u>Non-operating Revenues:</u></b> |                  |                  |                 |
| Federal and State grants              | 962,776          | 885,068          | 77,708          |
| Other non-operating revenue           | <u>13,030</u>    | <u>-</u>         | <u>13,030</u>   |
| Total non-operating revenues          | <u>975,806</u>   | <u>885,068</u>   | <u>90,738</u>   |
| Change in net position                | 2,191            | 5,525            | (3,334)         |
| Net position at beginning of year     | <u>70,066</u>    | <u>64,541</u>    | <u>5,525</u>    |
| Net position at end of year           | <u>\$ 72,257</u> | <u>\$ 70,066</u> | <u>\$ 2,191</u> |

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from Federal entitlement programs. The School received less State foundation revenue during the year as a result of decreased student enrollment of 607 students in fiscal year 2013 compared to 633 students in fiscal year 2012. The School received Federal grant monies through the Child Nutrition Cluster, Fresh Fruit and Vegetable, Title I Grants to Local Education Agencies, Special Education Grants, Title II-D Education Technology State Grants, Improving Teacher Quality, and Education Jobs programs during fiscal year 2013. The School received its first payment of \$13,030 in tax revenue from casino profits in January 2013, which is reported as other non-operating revenue.

***Debt***

The School had no debt obligations outstanding at June 30, 2013, or June 30, 2012.

***Capital Assets***

The School had no capital assets over the threshold to report at June 30, 2013, or June 30, 2012.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**Current Financial Related Activities**

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

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

**Contacting the School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Dan Lamb, Treasurer, Charter School Specialists, 12000 Harvard Avenue, Cleveland, Ohio 44105.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2013

|                              |                               |
|------------------------------|-------------------------------|
| <b>Assets:</b>               |                               |
| Current assets:              |                               |
| Cash . . . . .               | \$       75,400               |
| Receivables:                 |                               |
| Intergovernmental . . . . .  | <u>124,037</u>                |
| Total assets . . . . .       | <u>199,437</u>                |
| <br><b>Liabilities:</b>      |                               |
| Current liabilities:         |                               |
| Accounts payable . . . . .   | <u>127,180</u>                |
| Total liabilities . . . . .  | <u>127,180</u>                |
| <br><b>Net position:</b>     |                               |
| Unrestricted . . . . .       | <u>72,257</u>                 |
| Total net position . . . . . | <u><u>\$       72,257</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

|                                                    |                  |
|----------------------------------------------------|------------------|
| <b>Operating revenues:</b>                         |                  |
| State foundation . . . . .                         | \$ 4,397,382     |
| Total operating revenues . . . . .                 | <u>4,397,382</u> |
| <b>Operating expenses:</b>                         |                  |
| Purchased services. . . . .                        | 4,493,681        |
| Operating lease payments . . . . .                 | 866,148          |
| Other. . . . .                                     | 11,168           |
| Total operating expenses . . . . .                 | <u>5,370,997</u> |
| Operating loss . . . . .                           | <u>(973,615)</u> |
| <b>Non-operating revenues:</b>                     |                  |
| Federal and state grants . . . . .                 | 962,776          |
| Other non-operating revenue . . . . .              | 13,030           |
| Total non-operating revenues. . . . .              | <u>975,806</u>   |
| Change in net position . . . . .                   | 2,191            |
| <b>Net position at beginning of year . . . . .</b> | <u>70,066</u>    |
| <b>Net position at end of year. . . . .</b>        | <u>\$ 72,257</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

|                                                                                   |                              |
|-----------------------------------------------------------------------------------|------------------------------|
| <b>Cash flows from operating activities:</b>                                      |                              |
| Cash received from State foundation . . . . .                                     | \$ 4,391,004                 |
| Cash payments for purchased services . . . . .                                    | (4,515,874)                  |
| Cash payments for operating lease . . . . .                                       | (866,148)                    |
| Cash payments for other expenses. . . . .                                         | <u>(11,168)</u>              |
| Net cash used in operating activities. . . . .                                    | <u>(1,002,186)</u>           |
| <b>Cash flows from noncapital financing activities:</b>                           |                              |
| Cash received from Federal and State grants . . . . .                             | 991,582                      |
| Cash received from other non-operating revenue . . . . .                          | <u>13,030</u>                |
| Net cash provided by noncapital financing activities. . . . .                     | <u>1,004,612</u>             |
| Net increase in cash . . . . .                                                    | 2,426                        |
| <b>Cash at beginning of year . . . . .</b>                                        | <u>72,974</u>                |
| <b>Cash at end of year. . . . .</b>                                               | <u><u>\$ 75,400</u></u>      |
| <b>Reconciliation of operating loss to net cash used in operating activities:</b> |                              |
| Operating loss . . . . .                                                          | \$ (973,615)                 |
| Changes in assets and liabilities:                                                |                              |
| Decrease in accounts receivable . . . . .                                         | 5,740                        |
| Increase in accounts payable . . . . .                                            | 26,827                       |
| (Decrease) in intergovernmental payable. . . . .                                  | <u>(61,138)</u>              |
| Net cash used in operating activities . . . . .                                   | <u><u>\$ (1,002,186)</u></u> |

The School reported intergovernmental receivables in the amount of \$124,037 and \$152,843 at June 30, 2013 and June 30, 2012, respectively, for non-operating grants.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

The Harvard Avenue Community School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School provides students in grades K-8 with learning opportunities through an award winning curriculum, integrated with a broad range of support which include parental involvement, decision making from teachers and staff, community support, commitment to building character in students, and the importance of being challenged to strive for academic excellence in order to become marketable, productive, educated adults. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved under contract with the St. Aloysius Orphanage (the "Sponsor") commencing on March 10, 2006 and ending on June 30, 2010. The School began operations on September 5, 2006. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2011. On June 30, 2011, the contract was renewed for a four year period commencing on July 1, 2011 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 must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any company that operates or manages the School. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Board controls the School's instructional/support facility staffed by employees of the management company who provide services to 607 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.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA 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 non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, the School is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis.

**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.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA 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 \$4,397,382.

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 \$962,776.

**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".

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA 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 \$75,400 and the bank balance was \$76,275. 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.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 5 - RECEIVABLES/PAYABLES**

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

| <b>Intergovernmental receivables:</b>     | <u>Amount</u>     |
|-------------------------------------------|-------------------|
| Federal breakfast and lunch reimbursement | \$ 29,169         |
| Title VI-B                                | 9,699             |
| Title I                                   | 84,308            |
| Title II-A                                | <u>861</u>        |
| Total intergovernmental receivables       | <u>\$ 124,037</u> |

Under the terms of the operating contract with Imagine Schools, Inc. (See Note 10.B for detail), the School has recorded accounts payable to Imagine Schools, Inc. in the amount of \$124,037 for 100 percent of any State and Federal grant monies uncollected or unpaid as of June 30, 2013.

**NOTE 6 - PENSION PLANS**

The School has contracted with Imagine Schools, Inc. to provide employee services and to pay those employees (see Note 10.B). However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to 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](http://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 \$62,843, \$92,678 and \$124,703, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 6 - 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](http://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 \$212,600, \$203,285 and \$255,272, 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 \$9,499 made by the School and \$6,785 made by the plan members.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 7 - 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](http://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 \$768, \$4,014 and \$15,100, 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 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 \$3,550, \$5,473 and \$8,025, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - Imagine Schools, Inc., on behalf of the School, contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org), 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 \$16,354, \$15,637 and \$19,636, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**NOTE 8 - 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, automobile liability, excess/umbrella liability, and personal property liability through Philadelphia Indemnity Insurance Co.; and workers compensation and employers' liability through Twin City Fire Insurance Co.

| <u>Coverage</u>                            | <u>Limits of<br/>Coverage</u> |
|--------------------------------------------|-------------------------------|
| General liability:                         |                               |
| Each occurrence                            | \$ 1,000,000                  |
| General aggregate                          | 3,000,000                     |
| Medical expenses                           | 10,000                        |
| Personal & advertising injury              | 1,000,000                     |
| Damages to rented premises, per occurrence | 100,000                       |
| Products - aggregate                       | 3,000,000                     |
| Automobile liability:                      |                               |
| Combined single limit - each accident      | 1,000,000                     |
| Excess/umbrella liability:                 |                               |
| Each occurrence                            | 15,000,000                    |
| Aggregate                                  | 15,000,000                    |
| Retention                                  | 10,000                        |



**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 8 - RISK MANAGEMENT - (Continued)**

| Coverage - (Continued)                         | Limits of Coverage |
|------------------------------------------------|--------------------|
| Personal property liability:                   |                    |
| Limit                                          | \$250,000          |
| Deductible/coinsurance                         | 5,000              |
| Coinsurance                                    | 90%                |
| 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 9 - PURCHASED SERVICES**

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

|                                  |              |
|----------------------------------|--------------|
| Purchased services expenses:     |              |
| Management fees                  | \$ 4,298,637 |
| Sponsorship fees                 | 131,731      |
| Legal                            | 24,580       |
| Professional and fiscal services | 38,733       |
| Total                            | \$ 4,493,681 |

**NOTE 10 - CONTRACTS**

**A. Sponsor Contract**

The School entered into a four-year contract commencing on March 10, 2006 and continuing through June 30, 2010 with St. Aloysius Orphanage (the "Sponsor") for its establishment. On June 28, 2010, the contract was renewed commencing on July 1, 2010 and ending on June 30, 2011. On June 30, 2011, the contract was renewed for a four year period commencing on July 1, 2011 and ending on June 30, 2015. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the Contract with the Sponsor and the laws applicable to the School.
- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 10 - CONTRACTS - (Continued)**

- Provide reasonable technical assistance to the School.
- As permitted by law, intervene in the School's operation to correct problems in the School's overall performance, declare the School to be on probationary status pursuant to Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor.
- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year.

The School paid the Sponsor \$131,731 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 \$4,298,637 during fiscal year 2013.

**C. Service Contract**

The School entered into a service contract for a period of twenty-four months, commencing on July 1, 2012 and ending on June 30, 2014, with Charter School Specialists, LLC (CSS), to provide fiscal and Comprehensive Continuous Improvement Planning consulting services. The School paid CSS \$32,982 during fiscal year 2013 for these services.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 11 - MANAGEMENT COMPANY EXPENSES**

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

| <u>Expenses</u>        | <u>2013</u>         |
|------------------------|---------------------|
| Direct Expenses:       |                     |
| Salaries and wages     | \$ 1,999,454        |
| Employees' benefits    | 686,538             |
| Purchased services     | 1,811,122           |
| Supplies and materials | 190,416             |
| Capital outlay         | 80,530              |
| Other direct costs     | 39,618              |
| Indirect Expenses      | <u>526,920</u>      |
| Total expenses         | <u>\$ 5,334,598</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 12 - OPERATING LEASE**

The School entered into a lease agreement on August 1, 2006, with Schoolhouse Finance, LLC to lease classroom space for the School. The term of the lease commenced August 15, 2006, and shall continue through June 30, 2021. Thereafter the lease shall automatically renew for up to two consecutive five year terms, unless written notice of intent not to extend is delivered by either party at least one hundred eighty days prior to the end of the initial term or the first renewal term. The School shall pay to Schoolhouse Finance, LLC \$737,388 in annual base rent payable in advance in monthly installments of one-twelfth each on the 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 made \$866,148 in payments to Schoolhouse Finance, LLC during fiscal year 2013.

A schedule of the future lease payments required under the operating lease at June 30, 2013 follows:

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>Amount</u>       |
|----------------------------------------|---------------------|
| 2014                                   | \$ 892,132          |
| 2015                                   | 918,896             |
| 2016                                   | 946,463             |
| 2017                                   | 974,857             |
| 2018                                   | 1,004,103           |
| 2019 - 2021                            | <u>3,196,689</u>    |
| Total payments                         | <u>\$ 7,933,140</u> |

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

**NOTE 13 - 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 14 - FEDERAL TAX STATUS**

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on June 25, 2009. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2013**

| <b>FEDERAL GRANTOR</b><br><i>Pass Through Grantor</i><br>Program Title                      | Federal<br>CFDA<br>Number | Receipts                | Expenditures            |
|---------------------------------------------------------------------------------------------|---------------------------|-------------------------|-------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b><br><i>Passed Through Ohio Department of Education</i> |                           |                         |                         |
| Child Nutrition Cluster:                                                                    |                           |                         |                         |
| School Breakfast Program - FY 2013                                                          | 10.553                    | \$40,575                | \$40,575                |
| National School Lunch Program - FY 2013                                                     | 10.555                    | 182,909                 | 182,909                 |
| Total Child Nutrition Cluster                                                               |                           | <u>223,484</u>          | <u>223,484</u>          |
| Fresh Fruit and Vegetable Program - FY 2013                                                 | 10.582                    | 20,573                  | 20,573                  |
| <b>Total U.S. Department of Agriculture</b>                                                 |                           | <u>244,057</u>          | <u>244,057</u>          |
| <b>U.S. DEPARTMENT OF EDUCATION</b><br><i>Passed Through Ohio Department of Education</i>   |                           |                         |                         |
| Title I Grants to Local Education Agencies - FY 2012                                        | 84.010                    | 68,162                  | 52,344                  |
| Title I Grants to Local Education Agencies - FY 2013                                        | 84.010                    | 469,540                 | 418,320                 |
| Total Title I Grants to Local Education Agencies                                            |                           | <u>537,702</u>          | <u>470,664</u>          |
| Special Education Grants - FY 2013                                                          | 84.027                    | 133,351                 | 135,630                 |
| Title II-D, Education Technology State Grants - FY 2013                                     | 84.318                    | 2,904                   | 2,904                   |
| Improving Teacher Quality - FY 2013                                                         | 84.367                    | 11,243                  | 8,564                   |
| Education Jobs - FY 2012                                                                    | 84.410                    | 54,761                  | 19,327                  |
| <b>Total U.S. Department of Education</b>                                                   |                           | <u>739,961</u>          | <u>637,089</u>          |
| <b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>                                       |                           | <u><u>\$984,018</u></u> | <u><u>\$881,146</u></u> |

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Harvard 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 Academy assumes it expends federal monies first.



# 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

Harvard Avenue Community School  
Cuyahoga County  
12000 Harvard Avenue  
Cleveland, Ohio 44105

To the Board of Directors:

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 Harvard Avenue Community School, Cuyahoga County, (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 January 27, 2014.

### ***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

January 27, 2014





# Dave Yost • Auditor of State

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

Harvard Avenue Community School  
Cuyahoga County  
12000 Harvard Avenue  
Cleveland, Ohio 44105

To the Board of Directors:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Harvard Avenue Community School's (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 and questioned costs 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 program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the School's compliance for each of 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.

***Basis for Qualified Opinion on Title I Grants to Local Education Agencies***

As described in finding 2013-001 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding Allowable Costs/Cost Principles applicable to its Title I Grants to Local Education Agencies major federal program. Compliance with this requirement is necessary, in our opinion, for the School to comply with requirements applicable to this program.

***Qualified Opinion on Title I Grants to Local Education Agencies***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Grants to Local Education Agencies* paragraph, the School complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Title I Grants to Local Education Agencies* 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*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's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

The School's response to our noncompliance and internal control over compliance finding is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

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

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

January 27, 2014

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**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

|                     |                                                                                                                       |                                                           |
|---------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>                                                                            | Unmodified                                                |
| <b>(d)(1)(ii)</b>   | <b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>                  | No                                                        |
| <b>(d)(1)(ii)</b>   | <b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | No                                                        |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                        | No                                                        |
| <b>(d)(1)(iv)</b>   | <b>Were there any material internal control weaknesses reported for major federal programs?</b>                       | Yes                                                       |
| <b>(d)(1)(iv)</b>   | <b>Were there any significant deficiencies in internal control reported for major federal programs?</b>               | No                                                        |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>                                                                     | Qualified                                                 |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under § .510(a)?</b>                                                             | No                                                        |
| <b>(d)(1)(vii)</b>  | <b>Major Programs (list):</b>                                                                                         | Title I Grants to Local Education Agencies – CFDA #84.010 |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A/B Programs</b>                                                                            | Type A: > \$ 300,000<br>Type B: all others                |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee?</b>                                                                                              | No                                                        |

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

None

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

|                                                            |
|------------------------------------------------------------|
| <b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b> |
|------------------------------------------------------------|

|                                    |                                                          |
|------------------------------------|----------------------------------------------------------|
| <b>Finding Number</b>              | 2013-001                                                 |
| <b>CFDA Title and Number</b>       | Title I Grants to Local Education Agencies, CFDA #84.010 |
| <b>Federal Award Number / Year</b> | 2013                                                     |
| <b>Federal Agency</b>              | United States Department of Education                    |
| <b>Pass-Through Agency</b>         | Ohio Department of Education                             |

**Allowable Costs/Cost Principles – Time and Effort Documentation – Material Noncompliance, Material Weakness and Questioned Cost**

2 CFR Part 225, Appendix B paragraph 8.h.3 states, “employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.”

The School had employees who charged their salaries solely to the Title I Grant during fiscal year 2013. During our testing of this program, we noted the School failed to maintain the required semi-annual certifications or time and effort documentation for five Title I Grant teachers. The amount of monies charged to Title I for salaries in which there was no semi-annual certifications or time and effort documentation provided totaled \$138,132. As a result, the costs for these salaries charged to the Title I Grant are considered to be questioned costs. Failure to obtain the necessary certifications may result in unqualified personnel charging these grants and potential loss of future funding.

We recommend employees expected to work solely on a single Federal award or cost objective charge for their salaries and wages be supported by periodic certifications or kept on time and effort logs that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semiannually and signed by the employee and supervisory official having firsthand knowledge of the work performed by the employee.

**Official’s Response:** The School has reviewed the policies and procedures relating to the completion of time and effort logs as well as completion of semi-annual certifications required in 2 CFR Part 225. The School is also in the process of reviewing its training procedures and policies and internal controls that are in place and determine if further controls and/or changes are necessary. The Governing Authority has asked its management company to review and revise its record keeping procedures to at a minimum, require original time and effort sheets and semi-annual certifications be kept with the School’s Business Manager with copies being maintained by the Title I Coordinator.

**HARVARD AVENUE COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

| Finding Number | Planned Corrective Action                                                                                                                                                                                                                                                                               | Anticipated Completion Date | Responsible Contact Person                      |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------------------------------|
| 2013-001       | The Governing Authority has asked its management company to review and revise its record keeping procedures to at a minimum, require original time and effort sheets and semi-annual certifications be kept with the School's Business Manager with copies being maintained by the Title I Coordinator. | Immediately                 | School Business Manager and Title I Coordinator |

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Harvard Avenue Community School  
Cuyahoga County  
12000 Harvard Avenue  
Cleveland, Ohio 44105

To the Board of Directors:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Harvard Avenue Community School (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 of Directors. 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 School amended its anti-harassment policy at its meeting on September 24, 2012 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 of Directors 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

January 27, 2014

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# Dave Yost • Auditor of State

**HARVARD AVENUE COMMUNITY SCHOOL**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 18, 2014**