

Breakthrough Charter Schools:
Citizens Academy
Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
Breakthrough Charter Schools: Citizens Academy
10118 Hampden Avenue
Cleveland, Ohio 44108

We have reviewed the *Independent Auditor's Report* of the Breakthrough Charter Schools: Citizens Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Breakthrough Charter Schools: Citizens Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 4, 2013

This page intentionally left blank.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

**TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<i>Page</i>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Statements of Net Assets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to the Basic Financial Statements	10-26
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	27-28
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with Circular A-133	29-30
Schedule of Expenditures of Federal Awards – Cash Basis	31
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis.....	32
Schedule of Findings and Questioned Costs	33
Schedule of Prior Audit Findings	34

December 11, 2012

To the Board of Trustees
Breakthrough Charter Schools: Citizens Academy
10118 Hampden Ave.
Cleveland, Ohio 44108

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Breakthrough Charter Schools: Citizens Academy, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2012, and the respective changes in financial position and the 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 December 11, 2012 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rea & Associates, Inc.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

The management's discussion and analysis of Breakthrough Charter Schools: Citizens Academy'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 basic financial statements and the notes to the basic 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 \$2,057,081 at June 30, 2012.
- The School had operating revenues of \$3,060,680 and operating expenses of \$3,968,845 for fiscal year 2012. The School also had \$946,546 in non-operating revenues during fiscal year 2012. Total change in net assets for the fiscal year was an increase of \$38,381.

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 Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents answer the question, "How did we do financially during 2012?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received.

These statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

The table below provides a summary of the School's net assets for the fiscal years 2012 and 2011:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
ASSETS:		
Current Assets	\$ 1,590,925	\$ 1,807,718
Non Current Assets	21,754	21,962
Capital Assets, net	<u>859,174</u>	<u>991,773</u>
 Total Assets	 <u>2,471,853</u>	 <u>2,821,453</u>
 LIABILITIES:		
Current Liabilities	<u>414,772</u>	<u>802,753</u>
 Total Liabilities	 <u>414,772</u>	 <u>802,753</u>
 NET ASSETS:		
Invested in capital assets	859,174	991,773
Restricted	5,000	52,981
Unrestricted	<u>1,192,907</u>	<u>973,946</u>
 Total Net Assets	 <u>\$ 2,057,081</u>	 <u>\$ 2,018,700</u>

At June 30, 2012, the School's net assets totaled \$2,057,081. Both current assets and current liabilities decreased in fiscal year 2012. The decrease in current assets is primarily due to the decrease in cash and accounts receivable for the Dissemination grant. The decrease in current liabilities is primarily due to the timing of payments, with more expenses paid prior to the end of fiscal year 2012 than 2011.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA 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 the fiscal years 2012 and 2011:

	Change in Net Assets	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Revenues:		
State Foundation	\$ 2,988,765	\$ 2,709,087
Breakthrough Charter Schools	9,970	163,935
Other Operating Revenues	61,945	84,777
Total Operating Revenues	<u>3,060,680</u>	<u>2,957,799</u>
Operating Expenses:		
Salaries & Wages	1,964,597	2,321,644
Fringe Benefits	511,913	672,447
Purchased Services	1,107,472	1,227,600
Materials & Supplies	167,156	197,765
Equipment	23,829	49,922
Depreciation	132,599	139,136
Other	61,279	99,154
Total Operating Expenses	<u>3,968,845</u>	<u>4,707,668</u>
Operating Loss	<u>(908,165)</u>	<u>(1,749,869)</u>
Non-operating revenues(expenses):		
Federal and State Grants	787,753	1,184,877
Contributions and donations	157,638	718,562
Interest Income	1,150	1,580
Donations Expense	-	(276,144)
Other Income	5	27,050
Total Non-Operating Revenues(Expenses)	<u>946,546</u>	<u>1,655,925</u>
Change in Net Assets	38,381	(93,944)
Net assets at beginning of year	<u>2,018,700</u>	<u>2,112,644</u>
Net assets at end of year	<u><u>\$ 2,057,081</u></u>	<u><u>\$ 2,018,700</u></u>

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation payments, including foundation payments used for special education, attributed to 74.6% of total operating and non-operating revenues during fiscal year 2012.

There was an increase of 1 student in fiscal year 2012 from 404 students to 405 students. Breakthrough Charter Schools revenue is reimbursement for salaries and benefits. The decrease in Salaries & Wages was due to the Executive Director position moving to the Breakthrough Charter School's payroll and Breakthrough Charter Schools no longer reimbursing for the position. The decrease in Fringe Benefits was due to the reduction of the percentage of health care premiums paid by the school for their employees. The decrease in Federal and State grants was due to the elimination of American Recovery and Reinvestment Act (ARRA) grants. The decrease in contributions was due to a stock donations received in fiscal year 2011 for the benefit of Citizens Leadership Academy.

Capital Assets

At June 30, 2012, the School had \$58,925 invested in furniture, fixtures and equipment, net of accumulated depreciation and \$789,798 invested in leasehold improvements, net of accumulated depreciation and \$10,451 invested in construction in progress. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The School's fiscal agent relationship with Breakthrough Charter Schools, a Charter Management Organization, continued during 2011-2012. During the 2011-2012 school year, there were approximately 405 students enrolled in the School. The School relies on the State Foundation Funds, State and Federal Sub-Grants and private donors to provide the monies necessary to operate the School.

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 Mrs. Jenifer Taylor, Principal at Citizens Academy, 10118 Hampden Avenue, Cleveland, Ohio 44108 or email jtaylor@citizensacademy.org.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 1,197,351
Intergovernmental Receivable	269,379
Pledge Receivable	114,530
Other Receivables	7,276
Prepaid Expenses	<u>2,389</u>
Total Current Assets	<u>1,590,925</u>

Non-current Assets:

Security Deposits	15,000
Endowment	6,754
Capital Assets, net	<u>859,174</u>
Total Non-Current Assets	<u>880,928</u>

Total Assets	<u>2,471,853</u>
---------------------	------------------

LIABILITIES:

Current Liabilities:

Accounts Payable	210,541
Intergovernmental Payable	4,568
Accrued Wages & Benefits	185,971
Compensated absences payable	<u>13,692</u>
Total Current Liabilities	<u>414,772</u>

Total Liabilities	<u>414,772</u>
--------------------------	----------------

NET ASSETS:

Invested in capital assets	859,174
Restricted for:	
Permanently Restricted Net Assets	5,000
Unrestricted	<u>1,192,907</u>
Total Net Assets	<u>\$ 2,057,081</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:

State Foundation	\$2,988,765
Breakthrough Charter Schools	9,970
Other Operating Revenues	61,945
Total Operating Revenues	<u>3,060,680</u>

Operating Expenses:

Salaries & Wages	1,964,597
Fringe Benefits	511,913
Purchased Services	1,107,472
Materials & Supplies	167,156
Equipment	23,829
Depreciation	132,599
Other	61,279
Total Operating Expenses	<u>3,968,845</u>

Operating Loss (908,165)

Non-operating revenues:

Federal and State Grants	787,753
Contributions and donations	157,638
Other Income	5
Interest Income	1,150
Total Non-Operating Revenues	<u>946,546</u>

Change in Net Assets 38,381

Net assets at beginning of year	<u>2,018,700</u>
Net assets at end of year	<u><u>\$2,057,081</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:	
Cash received from State of Ohio	\$ 2,988,765
Cash received from Breakthrough Charter Schools	9,970
Cash received from classroom materials and fees	6,481
Cash received from Before & After Care	53,353
Cash received from other operations	2,357
Cash payments for salaries and wages	(2,003,929)
Cash payments for fringe benefits	(507,345)
Cash payments for purchased services	(1,205,312)
Cash payments for materials and supplies	(146,132)
Cash payments for equipment, etc.	(16,222)
Cash payments for other expenses	(52,307)
Net cash used in operating activities	<u>(870,321)</u>
 Cash flows from noncapital financing activities:	
Federal and State grants	934,834
Contributions and donations	135,608
Other non-operating revenue	5
Net cash provided by noncapital financing activities	<u>1,070,447</u>
 Cash flows from investing activities:	
Interest Income	<u>1,150</u>
Net cash provided by investing activities	<u>1,150</u>
 Net increase in cash and cash equivalents	 201,276
 Cash and cash equivalents at beginning of period	 <u>996,075</u>
Cash and cash equivalents at end of period	<u><u>\$1,197,351</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (908,165)
Adjustments:	
Depreciation	132,599
Changes in assets and liabilities:	
(Increase) in accounts receivable other	246
Decrease in prepayments	16,836
(Decrease) in accounts payable	(77,073)
(Decrease) in accrued wages and benefits	(39,332)
Increase in Intergovernmental Payable	<u>4,568</u>
Net cash used in operating activities	<u><u>\$ (870,321)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 1 – DESCRIPTION OF THE SCHOOL

Breakthrough Charter Schools: Citizens Academy (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School's mission is to provide students of kindergarten to grade five the knowledge, skills and habits to be effective and empowered stewards of their community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. 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 began operations at the beginning of the 1999-2000 school year. The school was approved for operation under a contract with Lucas County Educational Service Center that terminated on June 30, 2010. The School was approved for operation under a contract with Cleveland Municipal School District (the "Sponsor") for a period of five years commencing July 1, 2010. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The school has contracted with Breakthrough Charter Schools for academic and business services beginning July 1, 2010 for an initial term of five years.

The School operates under the direction of an eleven-member Board of Trustees. The Board of Trustees 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 qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 13 non-certified and 34 certificated full time teaching personnel who provide services to 405 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 applied 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 had the option to also apply FASB guidance issued after November 30, 1989, subject to this same limitation.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School elected not apply these FASB guidance. 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.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The School's basic 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 upon the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Eligibility requirements include timing requirements, which specify the fiscal 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. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are 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 does prescribe an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by the School are accounted for by the School's fiscal agent, Breakthrough Charter Schools. All cash is received and deposited by the school. Separate accounts are maintained in the School's name. Monies for the School are maintained in these accounts.

For the purposes of the statement of cash flows and the presentation on the Statement of Net Assets, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School does not have any infrastructure. The School maintains a capitalization threshold at \$5,000. 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. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the remaining useful life of the related capital assets. Materials, furniture, equipment and computers are depreciated over 5-7 years. Leasehold improvements are depreciated over twenty years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. 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. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity. For the School, these revenues are payments from the State Foundation Program and Before & After Care Program receipts. Also included are Breakthrough Charter Schools revenue for the reimbursement of salaries and benefits for two employees. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Prepaid Items

Payments made to vendors for services that will benefit fiscal years beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year ended in which services are consumed.

J. Intergovernmental Revenue

The School currently participates in the State Foundation Basic Aid, Title I, IDEA-B, Title II-A, Title II-D, ECSE, Race to the Top and Education Jobs. Revenues received from these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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. Amounts recognized under the above named programs for the 2012 school year totaled \$3,776,518.

K. Security Deposits

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$15,000, is held by the lessor (See Note 12).

L. Estimates

The preparation of basic 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.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

Vacation for teaching staff is to be taken in a manner that corresponds with the school calendar. Accordingly, the School does not accrue vacation time as a liability for teaching staff.

Vacation benefits for non-teaching staff are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned. Accrued vacation pay totaling \$13,692 is reported on the Statement of Net Assets under Compensated Absences Payable.

Sick time and other paid time off (PTO) are not payable if the PTO is not taken. The unused PTO cannot be carried over into the next school year. Therefore, no liability was recorded.

N. Contributions and Donations

Non-cash contributions and donations are recorded at their fair market value on the date donated. Contributions and donations received for the 2012 school year totaled \$157,638.

NOTE 3 – SPONSORSHIP AND MANAGEMENT AGREEMENTS

The School entered into an agreement with the Cleveland Metropolitan School District for a period of five years commencing July 1, 2010. Sponsorship fees are calculated as 1.5% of the fiscal year 2012 foundation payments received by the School, from the State of Ohio. The total amount due from the School for fiscal year 2012 was \$44,831, all of which was paid prior to June 30, 2012. Sponsorship fees are recorded as an other operating expense on the Statement of Revenues, Expenses, and Change in Net Assets.

The School entered into an agreement with Breakthrough Charter Schools to provide academic and business services beginning July 1, 2010 for an initial term of five years. Management fees are calculated as 10% of the fiscal year 2012 Foundation payments received by the School from the State of Ohio. The total amount due from the School for the fiscal year ending June 30, 2012 was \$298,877, all of which was paid prior to June 30, 2012. Management fees are recorded as professional and technical services within the purchased services expense on the Statement of Revenues, Expenses, and Change in Net Assets.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 4 – DEPOSITS

Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all School's deposits was \$1,197,351. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$994,977 of the School's bank balance of \$1,244,977 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

NOTE 5 – RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental receivables arising from grants and entitlements, accounts receivable and pledges receivable. Intergovernmental receivables are considered collectable in full due to the current year guarantee of federal funds. A summary of the principal items of receivables follows:

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 5 – RECEIVABLES (Continued)

Receivables

	<u>Amount</u>
Intergovernmental	
• Title I	\$ 136,327
• IDEA B	32,772
• Title IIA	10,466
• Title IID	2,429
• ECSE	1,146
• Ed Jobs	38,066
• Food Service	21,075
• Race to the Top	<u>27,098</u>
Total Intergovernmental receivable	<u>269,379</u>
Other Receivable	7,276
Friends of Breakthrough Schools Receivable	<u>114,530</u>
Total Receivables	<u>\$ 391,185</u>

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 6 – CAPITAL ASSETS

A summary of the School’s capital assets at June 30, 2012, follows:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 10,451	\$ -	\$ -	\$ 10,451
Depreciable Capital Assets:				
Leasehold Improvements	1,690,816	-	-	1,690,816
Materials, Furniture, Equipment, Computers	497,003	-	-	497,003
Total Capital Assets	<u>2,198,270</u>	<u>-</u>	<u>-</u>	<u>2,198,270</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(811,125)	(89,893)	-	(901,018)
Materials, Furniture, Equipment, Computers	(395,372)	(42,706)	-	(438,078)
Total Accumulated Depreciation	<u>(1,206,497)</u>	<u>(132,599)</u>	<u>-</u>	<u>(1,339,096)</u>
Total Capital Assets, Net	<u>\$ 991,773</u>	<u>\$ (132,599)</u>	<u>\$ -</u>	<u>\$ 859,174</u>

NOTE 7 – RISK MANAGEMENT

A. Insurance Coverage

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.

For the fiscal year ended 2012, the School contracted with the Ohio Casualty with the following insurance coverage:

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 7 – RISK MANAGEMENT (Continued)

A. Insurance Coverage (Continued)

Commercial General Liability per Occurrence	\$ 1,000,000
Commercial General Liability Aggregate	2,000,000
Umbrella Coverage per Occurrence	2,000,000
Umbrella Coverage per Aggregate	2,000,000
Damage to Premises Rented	300,000
Personal and Advertising Injury Limit	1,000,000
Computer Coverage (\$1,000 Deductible)	38,000
Employee Benefits Liability (\$1,000 Deductible) Each Employee	1,000,000
Employee Benefits Liability (\$1,000 Deductible) Aggregate	3,000,000
Employers Stop Gap Liability per Occurrence	1,000,000
Employers Stop Gap Liability per Aggregate	2,000,000
School Leaders Errors and Omissions/Aggregate (\$1,000 Deductible)	1,000,000
Sexual Misconduct Liability per Occurrence/Aggregate	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year. The School owns no property, but leases a facility located at 10118 Hampden Avenue, Cleveland, Ohio (See Note 12).

B. Workers' Compensation

The School makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employees Medical, Dental, Vision, Life and Disability Benefits

Effective January 1, 2011, Breakthrough Charter Schools contracted through an independent carrier to provide insurance to all employees who work 32 or more hours per week. Employees have a choice of two medical plans. The School subsidizes more for an employee plan and the least amount for a family plan. The School subsidizes between 70 – 88% of the Point of Service (POS) \$250 deductible plan and subsidizes between 60 – 85% for the Health Savings Account (HSA) \$2,500 deductible plan. Vision, life and long-term disability insurance are paid for by the school. The school provides dental insurance and short-term disability insurance benefits. Total insurance benefits paid by the School for the fiscal year were \$161,630.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 8 – CONTINGENCIES

A. Grants

The School received financial assistance from State agencies in the form of grants. The expense 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, 2012.

B. Litigation

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

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. FTE adjustment for 2012 is \$4,568. This adjustment has been recorded as an Intergovernmental payable.

D. Review of Statewide Student Attendance Data

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results are still pending and will be reported to the Ohio Department of Education at a later date.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 9 – PENSION PLANS

A. School Employees Retirement System

Plan Description: 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 of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$70,676, \$110,959 and \$112,295 respectively; 97 percent has been contributed for fiscal year 2012 and 100 percent has been contributed for fiscal year 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description: 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 Web site at www.strsoh.org. New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 9 – PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

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 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 \$200,279, \$218,445 and \$215,352, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 10 – POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description: The School participates in two cost-sharing, multiple employer post-employment 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 Chapter 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 Pmt B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under Employers/Audit Resources.

Funding Policy: State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .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.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

Active members do not contribute to the post-employment 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 (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$3,887, \$12,109 and \$3,689 respectively; 97 percent has been contributed for fiscal year 2012 and 100 percent has been contributed for fiscal year 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 Pmt B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$5,301, \$5,376 and \$6,094, respectively; 97 percent has been contributed for fiscal year 2012 and 100 percent has been contributed for fiscal year 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description: 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 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 2012, 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 2010 were \$14,306, \$16,603 and 15,382, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 11 – PURCHASED SERVICES

For the fiscal year ended June 30, 2012, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and technical services	\$ 512,047
Property services	345,207
Travel mileage/meeting expense	5,666
Communications	21,382
Utilities	11,457
Contracted craft or trade service	202,848
Other	<u>8,865</u>
Total	<u>\$ 1,107,472</u>

NOTE 12 – OPERATING LEASES

The School leases its facilities from The Temple-Tifereth Israel under a five-year lease agreement. This lease was effective July 1, 1999, and expired June 30, 2004. The lease provides the School with an option to renew for three additional five-year terms. The School exercised its option to renew for the third five-year term which expires June 30, 2014. The lease agreement between the School and The Temple-Tifereth Israel provides for lease payments on a fixed scheduled increase basis plus 9 percent of total revenue up to a yearly rental cap. Rent expenses and related expenses under the lease were \$235,641 for the fiscal year ended June 30, 2012.

NOTE 13 – FISCAL AGENT

The Academic and Business Services Agreement states Breakthrough Charter Schools (BCS) shall be responsible and accountable for the following financial functions:

- Provision of a licensed fiscal officer (treasurer);
- Payment of school expenditures with school funds;
- Maintenance of adequate cash balances to cover payroll and payments to vendors; and
- Payroll.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE 14 – SUBSEQUENT EVENT

In August 2012 the School vacated the space leased from The Temple-Tifereth Israel. During fiscal year 2013 the school paid \$123,238 including \$38,056 for July and August 2012 rent and dead rent of \$85,182. The School relocated to a building owned by Friends of Breakthrough Schools, 10118 Hampden Avenue, Cleveland, OH 44108.

NOTE 15 – PRIVATE DONATION

The School is a separate corporation from Friends of Breakthrough Schools, an Ohio not-for-profit corporation. Friends of Breakthrough Schools is an agency that was organized to provide funding for operations for Breakthrough Charter Schools. Friends of Breakthrough Schools pledged \$114,530 for operating expenses for the School. The pledged amount is recorded as a receivable as of June 30, 2012.

December 11, 2012

To the Board of Trustees
Breakthrough Charter Schools: Citizens Academy
10118 Hampden Ave.
Cleveland, Ohio 44108

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Breakthrough Charter Schools: Citizens Academy, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 11, 2012. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Breakthrough Charter Schools: Citizens Academy
Independent Auditor's Report On Internal Control Over Financial Reporting
and On Compliance and On Other Matters Based On An Audit of Financial
Statements Performed In Accordance With Government Auditing Standards
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, federal awarding agencies and pass-through entities, the School's sponsor, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

December 11, 2012

To the Board of Trustees
Breakthrough Charter Schools: Citizens Academy
10118 Hampden Ave.
Cleveland, Ohio 44108

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Breakthrough Charter Schools: Citizens Academy, Cuyahoga 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 have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion 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 expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to 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.

This report is intended solely for the information and use of management, the Board of Trustees, the School's sponsor, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u>			
<i>Passed Through the Ohio Department of Education</i>			
<i>Children Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$ 38,625	\$ 38,625
National School Lunch Program	10.555	121,601	121,601
Total Nutrition Cluster		<u>160,226</u>	<u>160,226</u>
Total U.S. Department of Agriculture		<u>160,226</u>	<u>160,226</u>
<u>U.S. Department of Education</u>			
<i>Passed Through the Ohio Department of Education</i>			
<i>Title I Grant:</i>			
Title I Grants to Local Educational Agencies	84.010	349,511	328,586
ARRA - Title I Grants to Local Educational Agencies	84.389	14,760	0
Total Title I Grant		<u>364,271</u>	<u>328,586</u>
<i>Special Education Cluster:</i>			
Special Education Grants to States	84.027	79,203	80,319
ARRA - Special Education Grants to States	84.391	15,972	0
Special Education Early Childhood	84.173	258	1,146
ARRA - Special Education Early Childhood	84.392	3,111	911
Total Special Education Cluster		<u>98,544</u>	<u>82,376</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2,976	1,554
Education Technology State Grants	84.318	173	748
Improving Teacher Quality State Grants	84.367	24,999	26,219
Charter School Dissemination Grant	84.282	152,176	46,070
ARRA - Race to the Top	84.395A	17,161	26,464
Education Jobs Fund	84.410	96,619	124,114
Total U.S. Department of Education		<u>756,919</u>	<u>636,131</u>
Total Federal Assistance		<u>\$ 917,145</u>	<u>\$ 796,357</u>

The accompanying notes to this schedule are an integral part of this schedule.

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS ACADEMY
CUYAHOGA COUNTY, OHIO**

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

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the School's federal grant activity and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - CHILD NUTRITION CLUSTER

Federal money is commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**Breakthrough Charter Schools:
Citizens' Academy
Cuyahoga County, Ohio**

*Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2012*

1. SUMMARY OF AUDITOR'S RESULTS
--

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I Grant Education Jobs	CFDA # 84.010 CFDA # 84.410
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None noted.

Breakthrough Charter Schools
Citizens Academy
Cuyahoga County, Ohio

Schedule of Prior Audit Findings
June 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-01	Material Audit Adjustments	Yes	

This page intentionally left blank.



Dave Yost • Auditor of State

BREAKTHROUGH CHARTER SCHOOLS: CITIZENS ACADEMY

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 14, 2013