

Breakthrough Charter Schools:
Citizens Leadership 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 Leadership Academy
9711 Lamont Avenue
Cleveland, Ohio 44106

We have reviewed the *Independent Auditor's Report* of the Breakthrough Charter Schools: Citizens Leadership 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 Leadership 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

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

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December 11, 2012

To the Board of Trustees
Breakthrough Charter Schools: Citizens Leadership Academy
9711 Lamont Ave.
Cleveland, Ohio 44106

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Breakthrough Charter Schools: Citizens Leadership 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.

Rea & Associates, Inc.

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**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 Leadership 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 \$662,432 at June 30, 2012.
- The School had operating revenues of \$676,612 and operating expenses of \$1,339,105 for fiscal year 2012. The School also had \$737,493 in non-operating revenues during fiscal year 2012. Total change in net assets for the fiscal year was an increase of \$75,000.

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.

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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	\$ 774,228	\$ 967,963
Security Deposits	318	11,000
	<hr/>	<hr/>
Total Assets	774,546	978,963
	<hr/>	<hr/>
LIABILITIES:		
Current Liabilities	112,114	391,505
	<hr/>	<hr/>
Total Liabilities	112,114	391,505
	<hr/>	<hr/>
NET ASSETS:		
Restricted	100,000	131,000
Unrestricted	562,432	456,432
	<hr/>	<hr/>
Total Net Assets	<u>\$ 662,432</u>	<u>\$ 587,432</u>

At June 30, 2012, the School's net assets totaled \$662,432. Both current assets and current liabilities decreased in fiscal year 2012 due to the purchase and disposal of a building to satisfy a loan payable. (See Note 6)

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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	\$ 669,025	\$ -
Fees	7,302	-
Other Income	285	-
Total Operating Revenues	<u>676,612</u>	<u>-</u>
Operating Expenses:		
Salaries & Wages	618,882	-
Fringe Benefits	137,080	-
Purchased Services	411,736	93,681
Materials & Supplies	63,690	12,418
Equipment	81,579	-
Other	26,138	2,372
Total Operating Expenses	<u>1,339,105</u>	<u>108,471</u>
Operating Loss	<u>(662,493)</u>	<u>(108,471)</u>
Non-operating revenues:		
Federal and State Grants	318,752	50,000
Contributions and donations	404,834	645,903
Rental Income Breakthrough Charter Schools	13,907	-
Total Non-Operating Revenues	<u>737,493</u>	<u>695,903</u>
Change in Net Assets	75,000	587,432
Net assets at beginning of year	587,432	-
Net assets at end of year	<u>\$ 662,432</u>	<u>\$ 587,432</u>

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**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 47% of total operating and non-operating revenues during fiscal year 2012.

The school educated 97 students in fiscal year 2012. This was the first year the school educated students, which accounts for the increases in revenues and expenses.

Current Financial Related Activities

The School's fiscal agent relationship is Breakthrough Charter Schools, a Charter Management Organization. During the 2011-2012 school year, there were approximately 97 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. Shelly Saltzman, Head of School of Citizens Leadership Academy, 9711 Lamont Avenue, Cleveland, Ohio 44106 or email shelly.saltzman@citizensleadershipacademy.org.

**BREAKTHROUGH CHARTER SCHOOLS:
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STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 693,057
Intergovernmental Grants Receivable	56,919
Intergovernmental Foundation Receivable	1,265
Pension Receivable	2,911
Breakthrough Charter Schools Receivable	2,553
Pledge Receivable	<u>17,523</u>

Total Current Assets 774,228

Non-current Assets:

Security Deposits 318

Total Non-Current Assets 318

Total Assets 774,546

LIABILITIES:

Current Liabilities:

Accounts Payable	49,744
Accrued Wages & Benefits	<u>62,370</u>
Total Current Liabilities	<u>112,114</u>

Total Liabilities 112,114

NET ASSETS:

Restricted	100,000
Unrestricted	<u>562,432</u>

Total Net Assets \$ 662,432

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:

State Foundation	\$ 669,025
Fees	7,302
Other Operating Revenues	285
Total Operating Revenues	676,612

Operating Expenses:

Salaries & Wages	618,882
Fringe Benefits	137,080
Purchased Services	411,736
Materials & Supplies	63,690
Equipment	81,579
Other	26,138
Total Operating Expenses	1,339,105

Operating Loss (662,493)

Non-operating revenues:

Federal and State Grants	318,752
Contributions and donations	404,834
Rental Income	13,907
Total Non-Operating Revenues	737,493

Change in Net Assets 75,000

Net assets at beginning of year	587,432
Net assets at end of year	\$ 662,432

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CITIZENS LEADERSHIP 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	\$667,760
Cash received from other operations	7,587
Cash payments for salaries and wages	(573,612)
Cash payments for fringe benefits	(122,305)
Cash payments for purchased services	(401,472)
Cash payments for materials and supplies	(54,952)
Cash payments for Equipment, etc	(72,698)
Cash payments for other expenses	(26,038)
Net cash used in operating activities	<u>(575,730)</u>
Cash flows from noncapital financing activities:	
Federal and State grants	286,225
Contributions and donations	687,234
Other non-operating revenue	11,707
Net cash provided by noncapital financing activities	<u>985,166</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(360,000)</u>
Net cash used in capital and related financing activities	<u>(360,000)</u>
Net increase in cash and cash equivalents	49,436
Cash and cash equivalents at beginning of period	<u>643,621</u>
Cash and cash equivalents at end of period	<u><u>\$693,057</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(\$662,493)
Adjustments to Reconcile Operating Income to net Cash Provided by Operating Activities:	
Changes in assets and liabilities:	
(Increase) in Intergovernmental Receivable	(1,265)
(Increase) in Pension Receivable	(2,911)
Decrease in deposits	10,330
Increase in Accounts Payable	18,239
Increase in accrued wages and benefits	62,370
Net cash used in operating activities	<u><u>(\$575,730)</u></u>

*The School transferred land and a building to Friends of Breakthrough in the amount of \$360,000 to satisfy a loan payable. (See Note 6)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
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**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 Leadership 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 prepare its urban middle school students, grades six through eight, to lead in academics, service and civic engagement during high school, college and beyond. 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 2011-2012 school year. The school was approved for operation under a contract with Cleveland Municipal School District (the "Sponsor") for a period of three years commencing July 1, 2011. 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 September 23, 2010 for an initial term of five years through June 30, 2015.

The School operates under the direction of an eight-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 4 non-certified and 15 certificated full time teaching personnel who provide services to 97 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.

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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:
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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.

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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 employee services. 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.

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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Intergovernmental Revenue

The School currently participates in the State Foundation Basic Aid, Charter School Program Grant, Title I, IDEA-B, Title II-A and Title II-D. 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 \$987,777.

K. Security Deposits

The security deposit of \$318 is for Columbia Gas.

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.

M. Compensated Absences

Effective for the 2011-2012 school year, each full time employee is given up to ten paid days per year personal time off (PTO). Employees receive 1 day of personal leave credit for each month of service to be used for personal matters, including vacation, illness or illness in a family. PTO leave not used will not be carried over to the next year. Employees who are terminated or resign are not paid for unused PTO.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$404,834.

NOTE 3 – SPONSORSHIP AND MANAGEMENT AGREEMENTS

The School entered into an agreement with the Cleveland Metropolitan School District for a period of three years commencing July 1, 2011. 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 \$10,035, all of which was paid prior to June 30, 2012. Sponsorship fees are recorded as purchased services 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, 2011 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 \$66,902, 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.

NOTE 4 – DEPOSITS

Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all School's deposits was \$693,057. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, none of the School's bank balance of \$708,555 was exposed to custodial risk as discussed below, as it 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

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

NOTE 4 – DEPOSITS (Continued)

Deposits with Financial Institutions (Continued)

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. All receivables are considered collectable in full due to the current year guarantee of federal funds. A summary of the principal items of receivables follows:

Receivables

Intergovernmental	Amount
• Title I	\$ 33,534
• IDEA B	15,966
• Title IIA	7
• Title IID	404
• Charter School Program Grant	6,264
• Food Service	<u>744</u>
Total Intergovernmental receivable	<u>56,919</u>
 Intergovernmental Foundation	 1,265
Pension Receivable	2,911
Breakthrough Charter School	2,553
Pledges Receivable	<u>17,523</u>
 Total Receivables	 <u>\$ 81,171</u>

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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:

	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2012</u>
Capital Assets:				
Land and Buildings	\$ -	\$ 360,000	\$ (360,000)	\$ -
Total Capital Assets	<u>-</u>	<u>360,000</u>	<u>(360,000)</u>	<u>-</u>
Less Accumulated Depreciation:				
Land and Buildings	-	-	-	-
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 360,000</u>	<u>\$ (360,000)</u>	<u>\$ -</u>

The School purchased land and a building from the Cleveland Metropolitan School District during fiscal year 2012. The School transferred the title to the land and building to Friends of Breakthrough Schools to satisfy a loan payable outstanding at June 30, 2011.

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 Cincinnati Insurance Company with the following insurance coverage:

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

**BREAKTHROUGH CHARTER SCHOOLS:
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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)

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 9711 Lamont 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 \$36,817.

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.

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

NOTE 8 – CONTINGENCIES (Continued)

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 \$1,265. Adjustments to the state funding during fiscal year 2012 are reflected in Accounts Receivable Intergovernmental Foundation.

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.

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

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

NOTE 9 – PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

fiscal year 2012, 12.70 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2012 was \$18,529; 100 percent has been contributed for fiscal year.

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 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.

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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)

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 year ended June 30, 2012 was \$67,455; 90 percent has been contributed for fiscal year 2012.

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.

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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)

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.

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 year ended June 30, 2012 was \$1,019; 100 percent has been contributed for fiscal year.

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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)

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 0.76 percent of covered payroll. The School's contributions for Medicare Pmt B for the fiscal year ended June 30, 2012 was \$1,408; 100 percent has been contributed for fiscal year.

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 year ended June 30, 2012 was \$4,818; 90 percent has been contributed for fiscal year 2012.

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	\$ 193,966
Property services	112,230
Travel mileage/meeting expense	8,236
Communications	13,653
Utilities	28,599
Contracted craft or trade service	50,912
Other	4,140
Total	<u>\$ 411,736</u>

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

NOTE 12 – OPERATING LEASES

The School leases its facilities from Friends of Breakthrough Charter Schools under a ten year lease agreement. The lease was effective July, 2011 and expires June 30, 2022. The lease will terminate early if the School terminates or does not renew the business services agreement with Breakthrough Charter Schools described in Note 3. The School pays all occupancy costs associated with the building in lieu of annual rent. These costs include insurance, real estate taxes and expenses related to the operation of the leased premises. These expenses were \$98,090 in fiscal year 2012. The future rent expenses are expected to remain consistent with the fiscal year 2012 expense.

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.

NOTE 14 – 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. Funding provided to the School from Friends of Breakthrough amount to \$117,523.

NOTE 15 – LOANS PAYABLE

On June 24, 2011 the School received a loan from Friends of Breakthrough Schools for the purchase of a building from the Cleveland Metropolitan School District. As of June 30, 2011 \$360,000 was outstanding. The School purchased the building during fiscal year 2012 and transferred the title of the building to Friends of Breakthrough Schools to satisfy the outstanding amount of the loan. As of June 30, 2012 there were no outstanding loans payable.

December 11, 2012

To the Board of Trustees
Breakthrough Charter Schools: Citizens Leadership Academy
9711 Lamont Ave.
Cleveland, Ohio 44106

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 Leadership 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.

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, 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

Breakthrough Charter Schools: Citizens Leadership Academy
9711 Lamont Ave.
Cleveland, Ohio 44106

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Trustees:

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

Accordingly, we have performed the procedures enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Breakthrough Charter Schools: Citizens Leadership Academy, Cuyahoga County, Ohio (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on June 18, 2012.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
- (11) A statement to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

Rea & Associates, Inc.

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Dave Yost • Auditor of State

BREAKTHROUGH CHARTER SCHOOLS: CITIZENS LEADERSHIP 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**