

***CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Directors
Cincinnati Leadership Academy
7243 Eastlawn Drive
Cincinnati, Ohio 45237

We have reviewed the *Report of Independent Accountants* of the Cincinnati Leadership Academy, Hamilton County, prepared by Charles E. Harris & 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 Cincinnati 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

March 15, 2013

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**CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY
AUDIT REPORT
For the Year Ending June 30, 2012**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Management’s Discussion and Analysis	3-6
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9-10
Notes to the Basic Financial Statements	11-21
Independent Accountants’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	22-23
Schedule of Prior Audit Findings	24

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REPORT OF INDEPENDENT ACCOUNTANTS

Cincinnati Leadership Academy
Hamilton County
7243 Eastlawn Drive
Cincinnati, Ohio 45237

To the Board of Directors:

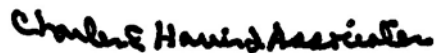
We have audited the accompanying basic financial statements of the Cincinnati Leadership Academy (the Academy) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Cincinnati Leadership Academy as of June 30, 2012, and the changes in its financial position and its 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 January 16, 2013 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.



Charles E. Harris & Associates, Inc.
January 16, 2013

CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

The management's discussion and analysis of Cincinnati Leadership Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the academy's financial performance as a whole; readers should review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets were \$8,250 in 2012.
- Total assets were \$228,480 in 2012.
- Liabilities were \$220,230 in 2012.

Using this Annual Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during 2012?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private sector companies. This basis of accounting takes into the account all revenues and expenses during the year, regardless of when cash is received or paid.

CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Table I provides a summary of the Academy's net assets for fiscal years 2012 and 2011:

TABLE I

	June 30 2012	June 30 2011
Assets		
Current Assets	\$ 188,222	\$ 133,814
Deposits	10,000	10,000
Capital Assets – Net	30,258	44,906
Total assets	228,480	188,720
Liabilities		
Current Liabilities	152,977	234,763
Non-Current Liabilities	67,253	67,253
Total liabilities	220,230	302,016
Net Deficit		
Invested in capital assets	30,258	44,906
Unrestricted	(22,008)	(158,202)
Total net assets (deficit)	\$ 8,250	\$ (113,296)

Total net assets increased by \$121,546, due in part to the continued payment on a working capital note due to the management company. Cash increased \$85,168. Intergovernmental receivables decreased \$24,722 due primarily to the timing of receipt of grant funding and a lower adjustment due in foundation funds for 2012.

CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Table 2 shows the changes in net assets for fiscal years 2012 and 2011, as well as a listing of revenues and expenses.

TABLE 2

	June 30	June 30
	2012	2011
Operating Revenues		
Foundation Payments	\$ 1,568,393	\$ 1,313,311
Other Revenues	37,677	1,366
	<u>1,606,070</u>	<u>1,314,677</u>
Nonoperating Revenues		
Federal Grants	433,717	524,035
State Grants	2,799	7,619
Contributions and Donations	-	13,336
Other Revenues	3,591	7,783
	<u>440,107</u>	<u>552,773</u>
Total revenue	<u>2,046,177</u>	<u>1,867,450</u>
Operating Expenses		
Purchased Services	1,768,281	1,673,243
Materials and Supplies	70,840	61,371
Depreciation (unallocated)	33,545	17,928
Other expenses	45,042	46,500
	<u>1,917,708</u>	<u>1,799,042</u>
Nonoperating Expenses		
Interest	6,923	12,058
Refund of Prior Year Federal Funds	-	2,831
	<u>6,923</u>	<u>14,889</u>
Total expenses	<u>1,924,631</u>	<u>1,813,931</u>
Increase in Net Assets	<u>\$ 121,546</u>	<u>\$ 53,519</u>

Net assets increased by \$121,546. Foundation payments increased by of \$255,082 due to an increased student count. Purchased Services and Materials and Supplies increased \$104,507 also due to factors related to increased student counts. Depreciation expense increased \$15,617 partly due to FY2011 leasehold improvement purchases being charged their first full year of depreciation.

CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets

At the end of fiscal year 2012, the Academy had \$30,258 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for fiscal years 2012 and 2011.

TABLE 3

	2012	2011
Furniture, fixtures and equipment	\$ 30,258	\$ 44,906

For more information on capital assets, see Note 5 to the basic financial statements.

Current Financial Issues

Cincinnati Leadership Academy was formed in 2007 under a contract with the Buckeye Community Hope Foundation. During the 2011-2012 school year there were 228 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2012 amounted to \$1,568,393.

Contacting the School's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of Cincinnati Leadership Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

**CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets

Current Assets:

Cash and Cash Equivalents	\$ 91,867
Intergovernmental Receivables	82,496
Prepaid Items	13,859
<i>Total Current Assets</i>	<u>188,222</u>

Non-Current Assets:

Deposits	10,000
Capital Assets:	
Depreciable Capital Assets, Net	30,258
<i>Total Non-Current Assets</i>	<u>40,258</u>

<i>Total Assets</i>	<u>228,480</u>
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Liabilities

Current Liabilities:

Accounts Payable	11,419
Accrued Wages Payable	99,962
STRS-SERS Payable	15,705
Contracts Payable	25,891
<i>Total Current Liabilities</i>	<u>152,977</u>

Non-Current Liabilities:

Due Within One Year	67,253
<i>Total Non-Current Liabilities</i>	<u>67,253</u>

<i>Total Liabilities</i>	<u>220,230</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	30,258
Unrestricted	(22,008)

<i>Total Net Assets</i>	<u><u>\$ 8,250</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY**

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

Operating Revenues	
Foundation Payments	\$ 1,568,393
Other Revenues	<u>37,677</u>
<i>Total Operating Revenues</i>	<u>1,606,070</u>
Operating Expenses	
Purchased Services (Note 10)	1,768,281
Materials and Supplies	70,840
Depreciation	33,545
Other	<u>45,042</u>
<i>Total Operating Expenses</i>	<u>1,917,708</u>
<i>Operating Loss</i>	<u>(311,638)</u>
Non-Operating Revenues and Expenses	
Federal Grants	433,717
State Grants	2,799
Proceeds from Insurance Claim	3,591
Interest and Fiscal Charges	<u>(6,923)</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>433,184</u>
<i>Change in Net Assets</i>	121,546
<i>Net Assets Beginning of Year</i>	<u>(113,296)</u>
<i>Net Assets End of Year</i>	<u>\$ 8,250</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,593,061
Cash Received from Other Operating Revenues	37,677
Cash Payments to Suppliers for Goods and Services	<u>(1,895,932)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(265,194)</u>

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	
Federal Grants Received	433,771
State Grants Received	2,799
Proceeds from Insurance Claims	3,591
Proceeds from Notes	150,000
Principal Payments	(213,979)
Interest Payments	<u>(6,923)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>369,259</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(18,897)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(18,897)</u>

Net Increase in Cash and Cash Equivalents 85,168

Cash and Cash Equivalents at Beginning of Year 6,699

Cash and Cash Equivalents at End of Year \$ 91,867

(Continued)

**CINCINNATI LEADERSHIP ACADEMY
HAMILTON COUNTY**

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

**Reconciliation of Operating Loss to Net
Cash Used by Operating Activities:**

Operating Loss	\$ (311,638)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	33,545
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	7,020
Decrease in Intergovernmental Receivable	24,668
(Increase) in Prepaid Items	(982)
(Decrease) in Accounts Payable	(12,163)
Increase in STRS-SERS Payable	9,650
(Decrease) in Accrued Wages Payable	(144)
(Decrease) in Contracts Payable	(15,150)
	<hr/>
<i>Total Adjustments</i>	46,444
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	\$ (265,194)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Cincinnati Leadership Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, personal integrity and responsibility, and a willingness to exercise leadership in their educational and social interactions. Staff, students and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. The Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Buckeye Community Hope Foundation (the Sponsor) for a period of five years commencing March 7, 2007. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a four member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility staffed by fourteen certificated teachers and eleven non-certificated staff who provide services to 228 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

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 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 Academy 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 financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy 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. Eligibility requirements include 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy 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. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$1,000 for individual purchases of furniture and equipment, land, and buildings, or \$2,500 for aggregate purchases. Software costing more than \$10,000 per application is also capitalized. The Academy does not possess any infrastructure. Improvements are capitalized; 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets or over the life of the lease for leasehold improvements. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non-EDP Equipment	6 years

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Security Deposit

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, currently totaling \$10,000, is held by the lessor. (See Note 11)

3. DEPOSITS

The Academy has designated two banks for the deposit of its funds. The Academy's deposits consist solely of checking and/or savings accounts at local banks; therefore, the Academy has not adopted a formal investment policy.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's cash is not subject to custodial credit risk.

4. RECEIVABLES

Receivables at June 30, 2012, consisted primarily of intergovernmental grants and reimbursements. All receivables are considered collectible in full and will be received within one year.

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

4. RECEIVABLES (continued)

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I	\$ 33,625
Title IIA	707
Education jobs	14,893
Race to the Top	2,183
NSLP	10,489
School Foundation Adjustment Due	20,599
 Total Intergovernmental Receivables	 <u><u>\$ 82,496</u></u>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/12</u>
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$25,497	\$6,658	-	\$32,155
Buildings	38,864	12,239	-	51,103
Total Capital Assets				
Being Depreciated	<u>64,361</u>	<u>18,897</u>	<u>-</u>	<u>83,258</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(3,967)	(7,662)	-	(11,629)
Buildings	(15,488)	(25,883)	-	(41,371)
Total Accumulated Depreciation	<u>(19,455)</u>	<u>(33,545)</u>	<u>-</u>	<u>(53,000)</u>
Total Capital Assets				
Being Depreciated, Net	<u>\$44,906</u>	<u>(\$14,648)</u>	<u>-</u>	<u>\$30,258</u>

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Academy contracted with Philadelphia Insurance for general liability, property insurance and educational errors and omissions insurance.

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

6. RISK MANAGEMENT (continued)

Coverage is as follows:

Educator's Legal Liability:	
Part 1, D&O Liability	\$3,000,000
Part 2, Employment Practices	3,000,000
Aggregate	4,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal and ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
Personal Property	250,000
BI	100,001
Umbrella	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the previous year.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$17,211, \$10,945 and \$5,398, respectively, which equaled the required contributions each year.

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

7. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

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 multiplied by a percentage that varies based on years of service, or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB Plan 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.

For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$75,146, \$67,990, and \$64,781 respectively; 100 percent has been contributed for all fiscal years.

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

8. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The Academy contributions for the years ended June 30, 2012, 2011 and 2010 were \$1,016, \$704, and \$321, respectively, which equaled the required contributions each year.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e).

Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$2,152, \$1,963 and \$985, respectively.

The SERS 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 financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

8. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System

The Academy contributes to the cost sharing multiple employer defined benefit Health 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.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal year ended June 30, 2012, 2011 and 2010 were \$5,780, \$5,230, and \$4,983 respectively. 100 percent has been contributed for all fiscal years.

9. CONTINGENCIES

A. Grants

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 of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement 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 of the funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2012.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education reflected ODE owed the Academy \$20,599.

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

10. PURCHASED SERVICE EXPENSES

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

Salaries	\$ 738,632
Fringe Benefits	258,293
Other Professional and Technical Services	89,269
The Leona Group, LLC.	232,483
Legal	601
Buckeye Community Hope Foundation	46,388
Cleaning Services	5,348
Repairs and Maintenance	19,423
Facilities Rental	156,000
Other rentals and leases	6,204
Communications	15,606
Advertising	2,438
Utilities	54,390
Contracted Food Services	141,612
Pupil Transportation	1,594
Total Purchased Services	<u><u>\$ 1,768,281</u></u>

11. OPERATING LEASES

The Academy has entered into a lease for the period August 1, 2007 through July 31, 2012 with Our Mother of Sorrows Catholic Church. On July 31, 2012 the lease was amended to extend it through July 31, 2013. Payments made totaled \$156,000 for the fiscal period. There is no option to extend the lease beyond the current termination date.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2012.

Fiscal Year Ending June 30,	Facility Lease
2013	<u>\$ 170,000</u>
2014	<u>14,167</u>
Total minimum lease payments	<u><u>\$ 184,167</u></u>

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

12. NOTES PAYABLE

Debt activity during 2012 was as follows:

	Balance at 06/30/11	Additions	Reductions	Balance at 06/30/12	Due in One Year
Note Payable-RBS	\$ -	\$ 150,000	\$ 150,000	\$ -	\$ -
Note Payable - LG	131,232	-	63,979	67,253	67,253
Total	<u>\$ 131,232</u>	<u>\$ 150,000</u>	<u>\$ 213,979</u>	<u>\$ 67,253</u>	<u>\$ 67,253</u>

The Academy entered into a loan agreement with RBS Citizen NA on October 14, 2011 with a maturity date of June 30, 2012. This agreement provided the Academy with \$150,000 for operations of the Academy. The annual rate of interest shall be a floating rate equal to the Prime Rate, as determined by the Registered Owner.

The Academy entered into a loan agreement with TLG for working capital in June 2009 for \$250,000 at annual interest rate of 5%. The note required monthly payments of \$5,757, including interest, beginning July 1, 2009 with a maturity of June 30, 2013.

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective March 15, 2007 through June 30, 2012, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. On March 15, 2010, the agreement was extended for an additional year through June 30, 2013. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures. The amount paid to TLG for fiscal period 2012 totaled \$232,483. Terms of the contracts require TLG to provide the following:

- A. implementation and administration of the Educational Program;
- B. management of all personnel functions, including professional development;
- C. operation of the school building and the installation of technology integral to school design;
- D. all aspects of the business administration of the Academy;
- E. the provision of food service for the Academy; and
- F. any other function necessary or expedient for the administration of the Academy.

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

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (continued)

Also, there are expenses that are billed to the Academy based on the actual costs incurred for the Academy by The Leona Group, LLC. These expenses include salaries of The Leona Group, LLC. employees working at the Academy and other costs related to providing educational and administrative services:

	2012
Salaries	\$ 738,632
Benefits	258,293
Other Professional and Technical	20,244
Communications	426
Contracted Food Services	1,356
Total	\$ 1,018,951

At June 30, 2012, the Academy owed The Leona Group, LLC \$25,891. The following is a schedule of amounts due to The Leona Group, LLC.:

	<u>Amount</u>
Management Fees	\$ 8,296
Miscellaneous	17,595
Total Expenses	<u>\$ 25,891</u>

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Cincinnati Leadership Academy
Hamilton County
7243 Eastlawn Drive
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the financial statements of the Cincinnati Leadership Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

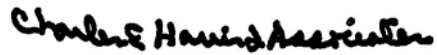
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies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

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 material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Charles E. Harris" followed by a stylized flourish.

Charles E. Harris and Associates, Inc.

January 16, 2013

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ended June 30, 2011, reported no material citations or recommendations.



Dave Yost • Auditor of State

CINCINNATI LEADERSHIP ACADEMY

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2013**