

**Breakthrough Charter Schools:
Cleveland Entrepreneurship
Preparatory School
Cuyahoga County, Ohio**

*Audited Financial Statements
June 30, 2011*



Dave Yost • Auditor of State

Board of Directors
Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
1417 East 36th Street
Cleveland, Ohio 44106

We have reviewed the *Independent Auditor's Report* of the Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. 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: Cleveland Entrepreneurship Preparatory School 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 7, 2012

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**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

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December 28, 2011

To the Board of Directors
Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
1417 East 36th Street
Cleveland, Ohio 44114

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2011 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 an express 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 Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio as of June 30, 2011, 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 28, 2011 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.

Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)**

The management's discussion and analysis of Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- In total, net assets were \$1,115,608 at June 30, 2011.
- The School had operating revenues of \$2,093,374 and operating expenses of \$3,425,500 for fiscal year 2011. The School also had \$1,853,605 in non-operating revenues during fiscal year 2011. Total change in net assets for the fiscal year was an increase of \$521,479.

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 2011?" These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received.

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

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

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)**

The table below provides a summary of the School's net assets for the fiscal years 2011 and 2010:

Statement of Net Assets		
	June 30, 2011	June 30, 2010
ASSETS:		
Current Assets	\$ 426,277	\$ 161,550
Capital Assets, net	2,647,290	2,782,854
Total Assets	3,073,567	2,944,404
LIABILITIES:		
Current Liabilities	335,061	501,311
Non-Current Liabilities	1,622,898	1,848,964
Total Liabilities	1,957,959	2,350,275
NET ASSETS:		
Invested in capital assets	908,064	788,155
Unrestricted	207,544	(194,026)
Total Net Assets	\$ 1,115,608	\$ 594,129

At June 30, 2011, the School's net assets totaled \$1,115,608. The increase in current assets is primarily due to the increase in cash and accounts receivable. The decrease in current liabilities is primarily due to the timing of payments, with more expenses paid prior to the end of fiscal year 2011 than 2010.

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 52% of total operating and non-operating revenues during fiscal year 2011.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)**

The table below shows the changes in net assets for the fiscal years 2011 and 2010:

	Change in Net Assets	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating Revenues:		
State Foundation	\$ 2,067,625	\$ 1,866,411
Classroom Fees	26	-
Other Operating Revenues	25,723	10,001
Total Operating Revenues	<u>2,093,374</u>	<u>1,876,412</u>
Operating Expenses:		
Salaries & Wages	1,531,578	1,327,045
Fringe Benefits	362,304	339,255
Purchased Services	811,600	919,480
Materials & Supplies	151,464	106,116
Equipment	16,280	-
Depreciation	154,939	154,907
Interest Expense	166,565	133,867
Other	230,770	144,362
Total Operating Expenses	<u>3,425,500</u>	<u>3,125,032</u>
Non-operating revenues:		
Federal and State Grants	988,017	351,021
Contributions and donations	853,075	700,250
Interest Income	513	921
Rental Income	12,000	-
Other Income	-	124,629
Total Non-Operating Revenue	<u>1,853,605</u>	<u>1,176,821</u>
Change in Net Assets	521,479	(71,799)
Net assets at beginning of year	<u>594,129</u>	<u>665,928</u>
Net assets at end of year	<u>\$ 1,115,608</u>	<u>\$ 594,129</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)**

The increase in foundation revenue and the increase in salaries and wage expenses are due to an increase in enrollment in the school. There was an increase of 29 students in fiscal year 2011 from 284 students to 313 students. The increase in Federal and State grants was due to the receipt of American Recovery and Reinvestment Act (ARRA) grants and The Race to the Top grant and a reallocation of fiscal year 2010 Consolidated Title Dollars.

Capital Assets

At June 30, 2011, the School had \$31,855 invested in furniture, fixtures and equipment, net of accumulated depreciation and \$2,615,435 invested in leasehold and building improvements, net of accumulated depreciation. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The School's fiscal agent relationship changed July 1, 2010 and is with Breakthrough Charter Schools, a Charter Management Organization. During the 2010-2011 school year there were approximately 313 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 Mr. Chad Webb, Head of School at Entrepreneurship Preparatory School, 1417 E. 36th St., Cleveland, Ohio 44114 or email chad.webb@eprepschool.org.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011**

ASSETS:

Current Assets:

Cash and cash equivalents	\$	198,379
Intergovernmental Receivable		222,961
Prepaid Expenses		4,937

Total Current Assets		426,277
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Capital Assets, net		2,647,290
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Total Non-Current Assets		2,647,290
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Total Assets		3,073,567
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LIABILITIES:

Current Liabilities:

Accounts Payable		109,568
Accrued Wages & Benefits		84,665
Current portion of long-term debt		116,328
Deferred Revenue-Dissemination		12,000
Loan Payable - FOEP		12,500

Total Current Liabilities		335,061
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Non-Current Liabilities-Long-Term Debt		1,622,898
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Total Liabilities		1,957,959
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NET ASSETS:

Invested in capital assets		908,064
Unrestricted		207,544

Total Net Assets		\$ 1,115,608
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating Revenues:	
State Foundation	\$ 2,067,625
Classroom Fees	26
Other Operating Revenues	25,723
Total Operating Revenues	2,093,374
 Operating Expenses:	
Salaries & Wages	1,531,578
Fringe Benefits	362,304
Purchased Services	811,600
Materials & Supplies	151,464
Equipment	15,281
Depreciation	155,938
Interest Expense	166,565
Other	230,770
Total Operating Expenses	3,425,500
Operating Loss	(1,332,126)
 Non-operating revenues:	
Federal and State Grants	988,017
Contributions and Donations	853,075
Interest Income	513
Rental Income	12,000
Total Non-Operating Revenue	1,853,605
Change in Net Assets	521,479
Net assets at beginning of year	594,129
Net assets at end of year	\$ 1,115,608

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Cash received from State of Ohio	\$ 1,959,954
Cash received from classroom materials and fees	26
Cash received from food service	122
Cash received from other operations	23,951
Cash payments for salaries and wages	(1,516,216)
Cash payments for fringe benefits	(365,558)
Cash payments for purchased services	(814,721)
Cash payments for materials and supplies	(135,439)
Cash payments for other expenses	(211,701)
Net cash used in operating activities	<u>(1,059,582)</u>
Cash flows from noncapital financing activities:	
Federal and State grants	722,135
Contributions and donations	717,205
Other non-operating revenue	12,513
Net cash provided by noncapital financing activities	<u>1,451,853</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(19,374)
Cash payments for long-term debt	(272,038)
Net cash used in capital and related financing activities	<u>(291,412)</u>
Net increase in cash and cash equivalents	100,859
Cash and cash equivalents at beginning of period	<u>97,520</u>
Cash and cash equivalents at end of period	<u><u>\$ 198,379</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,332,126)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	155,938
Interest	166,565
Donated services	(2,246)
Changes in assets and liabilities:	
Increase in accounts receivable	(107,671)
Decrease in prepayments	4,544
Increase in accounts payable	49,101
Increase in accrued wages and benefits	6,313
Net cash used in operating activities	<u><u>\$ (1,059,582)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS FOR THE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 – DESCRIPTION OF THE SCHOOL

Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School's mission is to provide students of grades sixth to eighth the knowledge, skills and habits to be effective and empowered stewards of their community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Cleveland Metropolitan School District (the Sponsor) for a period of five years commencing June 30, 2005. The contract terminated on June 30, 2010. The contract was renewed through June 30, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

The School operates under the direction of a six-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 6 non-certified and 31certificated full time teaching personnel who provide services to 313 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. The School elected not apply these FASB guidance. The School's significant accounting policies are described below.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

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

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. 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.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

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

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 and is maintained in separate accounts 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.

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. Building Improvements are depreciated over 30 years, leasehold improvements are depreciated over 20 years and furniture, fixtures and equipment are depreciated over five years.

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CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

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

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 sales for food service. 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, 2011 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year ended in which services are consumed.

J. Intergovernmental Revenue

The School currently participates in the State Foundation Basic Aid, American Recovery and Reinvestment Act (ARRA) grants, Title I, Title IV, IDEA-B, Title II-A, Title II-D, Food Service and Race to the Top. 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

**BREAKTHROUGH CHARTER SCHOOLS:
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

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

J. Intergovernmental Revenue(Continued)

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 awarded under the above named programs for the 2011 school year totaled \$3,055,642.

K. 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.

L. Compensated Absences

Personal leave benefits (sick, vacation or personal) are earned at a rate of one day per month and cannot be carried over into the subsequent year. No accrual for personal leave is made since unused leave time is not paid to employees upon termination of employment.

M. Contributions and Donations

Non-cash contributions and donations are recorded at their fair market value on the date donated.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

For the year ended June 30, 2011, the School has implemented GASB Statement No. 59, “*Financial Instruments Omnibus*.”

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School.

NOTE 4 – DEPOSITS

Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all School's deposits was \$198,379. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, none of the School's bank balance of \$217,541 was exposed to custodial risk as discussed below.

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

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CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 5 – RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental receivables arising from grants and entitlements and accounts 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
• Foundation(FTE)	\$107,671
• Title I	71,265
• IDEA B	9,156
• Title I ARRA	17,141
• IDEA B ARRA	3,344
• Title IV	160
• Food Service Receivable	3,738
• Race to the Top	<u>10,486</u>
Total intergovernmental receivable	<u>\$222,961</u>

NOTE 6 – CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2011, follows:

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Capital Assets:				
Building Improvements	\$ 156,596	\$ -	\$ -	\$ 156,596
Furniture, Fixtures & Equipment	37,455	19,374	-	56,829
Leasehold Improvements	2,767,061	-	-	2,767,061
Total Capital Assets	<u>2,961,112</u>	<u>19,374</u>	<u>-</u>	<u>2,980,486</u>
Less Accumulated Depreciation:				
Building Improvements	(14,767)	(5,220)	-	(19,987)
Furniture, Fixtures & Equipment	(13,609)	(11,365)	-	(24,974)
Leasehold Improvements	(148,882)	(139,353)	-	(288,235)
Total Accumulated Depreciation	<u>(177,258)</u>	<u>(155,938)</u>	<u>-</u>	<u>(333,196)</u>
Total Capital Assets, Net	<u>\$ 2,783,854</u>	<u>\$ (136,564)</u>	<u>\$ -</u>	<u>\$ 2,647,290</u>

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

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 2011, the School contracted with Philadelphia Indemnity Insurance with the following insurance coverage:

Commercial General Liability per Occurrence	\$ 1,000,000
Commercial General Liability Aggregate	2,000,000
Umbrella Coverage per Occurrence	3,000,000
Umbrella Coverage per Aggregate	3,000,000
Commercial Property (\$1,000 Deductible)	3,025,000
Crime Coverage (\$2,500 Deductible)	250,000
Commercial Marine (\$1,000 Deductible)	218,000
Employee Benefits Liability (\$1,000 Deductible) Each Employee	1,000,000
Employers Stop Gap Liability	1,000,000
School Board Legal Liability per Occurrence/Aggregate (\$2,500 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 12200 Fairhill Road, 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

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 7 – RISK MANAGEMENT (Continued)

C. Employees Medical, Dental, Vision, Life and Disability Benefits(Continued)

60 – 75% 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 subsidizes dental insurance at 50%. Short-term disability insurance benefits are also available at the employee’s cost. Total insurance benefits paid by the School for the fiscal year were \$83,384.

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, 2011.

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 2011 is \$107,671. This amount has been recorded as an intergovernmental receivable.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 9 – PENSION PLANS

A. School Employees Retirement System

Plan Description: The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy: Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$82,335, \$70,517 and \$41,929 respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009

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

**BREAKTHROUGH CHARTER SCHOOLS:
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

B. State Teachers Retirement System of Ohio(Continued)

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy: For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$195,202, \$102,724 and \$140,347, respectively; 80 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**BREAKTHROUGH CHARTER SCHOOLS:
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 10 – POSTEMPLOYMENT BENEFITS(Continued)

A. School Employees Retirement System(Continued)

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 Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Pmt B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 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 2011, 1.43 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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

A. School Employees Retirement System (Continued)

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 2011, 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 years ended June 30, 2011, 2010, and 2009 were \$5,124, \$2,538 and \$14,705, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Pmt B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$4,191, \$4,193 and \$2,246, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

A. 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-

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

B. State Teachers Retirement System of Ohio(Continued)

employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$13,943, \$7,902 and \$8,167, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 11 – PURCHASED SERVICES

For the fiscal year ended June 30, 2011, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and technical services	\$244,707
Property services	211,128
Travel mileage/meeting expense	20,896
Communications	79,546
Utilities	58,859
Contracted craft or trade service	166,100
Other	<u>30,364</u>
Total	<u>\$811,600</u>

NOTE 12 – OPERATING LEASES

The School entered into a lease agreement with Graystone Properties for use of the property located on 1417 E. 36th St., Cleveland, OH. It is a non-cancelable agreement that expires on June 30, 2020. Base and common area rent for this facility was \$6,458 and \$3,023, respectively, per month through April, 2011 and will increase each subsequent calendar year by the approximate percentage increase in the United States Bureau of Labor Statistics' Cleveland-Akron, Ohio Consumer Price Index for All Urban Consumers. Base and common area rent for this facility is currently \$6,717 and \$3,229, respectively. The School is not required to pay base rent during the 1st, 2nd, 83rd and 95th full calendar months of the lease term. The School will be required to make scheduled reimbursement payments for renovations to the property in addition to those noted above. Total payments for any twelve-month period are subject to a rental cap of \$320,000 as adjusted for the annual increases in base rent as described above.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 12 – OPERATING LEASES(Continued)

The School has also entered into a non-cancellable agreement for office equipment, which expires in January, 2012.

Rent expenses and related expenses under the leases was \$124,693 for the fiscal year ended June 30, 2011.

Future minimum rental payments due in each of the next five years are:

2012	\$ 118,905
2013	114,390
2014	114,390
2015	114,390
2016	<u>114,390</u>
Total	\$ <u>576,465</u>

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;
- Payroll; and
- Maintenance of adequate cash balances to cover payroll and payments to vendors.

NOTE 14 - LONG-TERM DEBT

In 2009 the School was advanced a total of \$2,317,061 by Tylerville, LLC for renovations to the property currently used as the School facility (see Note 12). The school is required to repay the balance of \$1,739,226 in monthly installments amortized over a remaining 136 months at an interest rate of 5% at June 30, 2011, to be adjusted at June 1st of each fiscal year.

	<u>6/30/2010</u>	<u>Additions</u>	<u>Payments</u>	<u>6/30/2011</u>	<u>Amount due within one year</u>
Tylerville, LLC	<u>\$ 1,994,699</u>	<u>\$ -</u>	<u>\$ 255,473</u>	<u>\$ 1,739,226</u>	<u>\$ 116,328</u>

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 14 - LONG-TERM DEBT(Continued)

The following is a summary of the future debt service requirements for the Tylerville, LLC loan:

Fiscal Year Ending June 30	Interest	Principal	Total
2012	\$ 84,319	\$ 116,328	\$ 200,647
2013	78,368	122,279	200,647
2014	72,112	128,535	200,647
2015	65,536	135,111	200,647
2016	58,623	142,024	200,647
2017-2021	158,017	1,094,949	1,252,966
Total	<u>\$ 516,975</u>	<u>\$ 1,739,226</u>	<u>\$ 2,256,201</u>

NOTE 15 – PRIVATE DONATION

The School is a separate corporation from Friends of Entrepreneurship Preparatory Schools (known as Friends of Breakthrough Schools as of June 24, 2011), an Ohio not-for-profit corporation. Friends of Entrepreneurship Preparatory Schools is an agency that was organized to provide funding for operations for Breakthrough Charter Schools: Village Preparatory School and Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School and schools like them. Funding provided to Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School from Friends of Entrepreneurship Preparatory Schools amount to \$703,075 for operating expenses. Friends of Entrepreneurship Preparatory Schools paid \$12,000 to Cleveland Entrepreneurship Preparatory School for rent.

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CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 16 – SPONSORSHIP AND MANAGEMENT AGREEMENTS

The School entered into an agreement with the Cleveland Metropolitan School District for a period of five years commencing June 30, 2005. The contract was renewed through June 30, 2015. Sponsorship fees are calculated as 1.5% of the fiscal year 2011 foundation payments received by the School, from the State of Ohio. The total amount due from the School for fiscal year 2011 was \$30,053 of which \$16,034 was paid prior to June 30, 2011. The \$14,019 liability is recorded in accounts payable at June 30, 2011. Sponsorship fees are recorded as professional and technical services within the purchased services expense on the Statement of Revenues, Expenses, and Changes in Net Assets.

The School entered into an agreement with Breakthrough Charter Schools to provide academic and business services beginning July 1, 2010 for an initial term of five years. Management fees are calculated as 8% of the fiscal year 2011 Foundation and State Fiscal Stabilization Funds payments received by the School from the State of Ohio. The total amount due from the School for the fiscal year ending June 30, 2011 was \$157,763 of which \$144,616 was paid prior to June 30, 2011. The \$13,147 liability is recorded in accounts payable at June 30, 2011. Management fees are recorded as an other operating expense on the Statement of Revenues, Expenses, and Changes in Net Assets.

December 28, 2011

To the Board of Directors
Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
1417 East 36th Street
Cleveland, Ohio 44114

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: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified a deficiency in internal control over financial reporting that we consider to be material a weakness.

Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
Internal Control – Compliance Report
Page 2

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 a 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness (#2011-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of the School in a separate letter dated December 28, 2011.

The School management's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School's response and, accordingly, we express no opinion on it.

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

Rea & Associates, Inc.

December 28, 2011

To the Board of Directors
Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
1417 East 36th Street
Cleveland, Ohio 44114

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

Compliance

We have audited the compliance of Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio (the School) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Rea & Associates, Inc.

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>			
<i>Passed Through the Ohio Department of Education</i>			
<i>Children Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$ 25,054	\$ 25,054
National School Lunch Program	10.555	105,092	105,092
Total Child Nutrition Cluster		<u>130,146</u>	<u>130,146</u>
Total U.S. Department of Agriculture		<u>130,146</u>	<u>130,146</u>
<u>U.S. Department of Education</u>			
<i>Passed Through the Ohio Department of Education</i>			
<i>Title I Cluster:</i>			
Title I Grants to Local Educational Agencies	84.010	95,434	316,767
ARRA - Title I Grants to Local Educational Agencies	84.389	118,107	161,726
Total Title I Cluster		<u>213,541</u>	<u>478,493</u>
<i>Special Education Cluster:</i>			
IDEA Part B	84.027	85,029	58,738
ARRA - IDEA Part B	84.391	54,485	33,483
Total Special Education Cluster		<u>139,514</u>	<u>92,221</u>
Safe and Drug-Free Schools and Communities	84.186	1,951	1,581
Education Technology	84.318	1,210	985
Improving Teacher Quality	84.367	10,690	10,596
ARRA - State Fiscal Stabilization Fund	84.394	168,156	168,156
Public Charter Schools Program	84.282	12,000	0
ARRA - Race to the Top	84.395A	0	10,486
Total U.S. Department of Education		<u>547,062</u>	<u>762,518</u>
Total Federal Assistance		<u>\$ 677,208</u>	<u>\$ 892,664</u>

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

**BREAKTHROUGH CHARTER SCHOOLS:
CLEVELAND ENTREPRENEURSHIP PREPARATORY SCHOOL
CUYAHOGA COUNTY, OHIO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE A - BASIS OF PRESENTATION

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - TRANSFERS

The School generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with the Ohio Department of Education's (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2011, the ODE authorized the following transfers:

CFDA #	Grant Title	Year	Transfers In	Transfers Out
84.010	Title I	2011	\$ 176,139	
84.010	Title I	2010		\$ 176,139
84.389	ARRA Title I	2011	40,618	
84.389	ARRA Title I	2010		40,618

**Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
Cuyahoga County**
*Schedule of Findings and Questioned Costs
OMB Circular A-133 , Section .505
June 30, 2011*

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I Cluster Special Education Cluster	CFDA # 84.010 & 84.389 CFDA # 84.027 & 84.391
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
Cuyahoga County**
*Schedule of Findings and Questioned Costs
OMB Circular A-133 , Section .505(Continued)
June 30, 2011*

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

**FINDING 2011-01
Material Weakness**

Criteria: In 2010, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit, which supersedes SAS No. 112. This standard became effective for audits of financial statements for periods ending on or after December 15, 2009.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Condition: There were material audit adjustments made to the financial statements presented for audit.

Cause: There were two factors that resulted in the adjustments to the financial statements, each independent of the other, identified below:

The Ohio Department of Education (ODE) allows School's to carry over federal grant allocations from the current grant year to the subsequent grant year upon approval by ODE. These carry over adjustments result in adjustments to the original 2011 federal allocation and should not be included in the intergovernmental receivable calculation.

ODE conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. These reviews resulted in positive adjustments to the School's foundation payments and should be included as an intergovernmental receivable.

Effect: The conditions described above resulted in an overstatement of intergovernmental receivable in the amount of \$85,155; an overstatement of State and Federal Grants revenue in the amount of \$192,826; and an understatement of State Foundation revenue in the amount of \$107,671.

Recommendation: To ensure the School's financial statements and notes to the financial statements are complete and accurate, the School should adopt policies and procedures, including a final review of the statements and notes by the School Chief Financial Officer and Board of Directors, to identify and correct errors and omissions.

Management Response: Management will scrutinize all major transactions more closely to ensure that accounting treatment is in accordance with GAAP. Management will also be vigilant of FTE adjustments made by ODE prior to closing the books at year end.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None noted.

December 28, 2011

Breakthrough Charter Schools:
Cleveland Entrepreneurship Preparatory School
1417 East 36th Street
Cleveland, Ohio 44114

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Directors:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. 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 School did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the School to amend its definition by September 28, 2010.

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 Directors, 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: CLEVELAND ENTREPRENEURSHIP PREPARATORY
SCHOOL**

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 20, 2012**