



Dave Yost • Auditor of State



**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position.....	7
Statement of Revenues, Expenses, and Changes in Net Position.....	8
Statement of Cash Flows .....	9
Notes to the Basic Financial Statements .....	11
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23
Independent Accountants' Report on Applying Agreed Upon Procedures .....	25

**THIS PAGE INTENTIONALLY LEFT BLANK.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Believe to Achieve, Cleveland  
Cuyahoga County  
12200 Fairhill Road  
Cleveland, Ohio 44120

To the Board of Directors:

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

We have audited the accompanying financial statements of Believe to Achieve, Cleveland, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Believe to Achieve, Cleveland, Cuyahoga County, Ohio, as of June 30, 2013, and its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 14 to the financial statements, the School has suffered losses from operations and has a net position deficiency. Note 14 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2014, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



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

April 11, 2014

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

The discussion and analysis of the Believe to Achieve, Cleveland (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (the MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the School comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

**FINANCIAL HIGHLIGHTS**

Key Financial Highlights for the School for the 2012-13 fiscal year are as follows:

- Total assets balance \$677,993.
- Total liabilities balance \$609,382.
- Total net position \$68,611.
- Total operating and non-operating revenues were \$2,578,685 and \$2,529,874 respectively. Total operating expenses were \$5,039,948.

**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 Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the School did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in that position. This change in net position is important because it tells the reader whether 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. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, facility conditions, changes in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during fiscal year 2013. This statement includes all assets and liabilities, both financial and capital, and short-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies.

Table 1 provides a summary of the School's net position for fiscal year 2013.

**Table 1  
Statement of Net Position**

	<b>2013</b>
<b>Assets</b>	
Current Assets	\$ 151,592
Capital Assets, Net of Accumulated Depreciation	526,401
 Total Assets	 677,993
 <b>Liabilities</b>	
Current Liabilities	609,382
 <b>Net Position</b>	
Net Investment in Capital Assets	526,401
Unrestricted	(457,790)
Total Net Position	\$ 68,611

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School's net position totaled \$ 68,611.

Current assets represent cash, accounts receivable, grants receivable and other assets. Current liabilities represent accounts payable, accrued expenses and note payable at fiscal year-end.



**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**Statement of Revenues, Expenses and Changes in Net Position**

Table 2 shows the changes in net position for fiscal year 2013, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth from per-pupil funding, facility conditions, changes in technology, required educational programs and other factors.

**Table 2  
Change in Net Position**

	<u>2013</u>
<b>Operating Revenue</b>	
State Aid	\$ 2,550,988
Other	<u>27,697</u>
Total Operating Revenues	<u>2,578,685</u>
<b>Operating Expenses</b>	
Purchased Services	4,411,132
Materials and Supplies	321,295
Sponsor Fees	74,547
Depreciation	167,962
Other	<u>65,012</u>
Total Operating Expenses	<u>5,039,948</u>
Operating (Loss)	(2,461,263)
<b>Non-Operating Revenues</b>	
Federal Grants	216,486
Management Company Contributions	1,603,688
Debt Forgiveness	<u>709,700</u>
Total Non-Operating Revenues	<u>2,529,874</u>
<b>Increase in Net Position</b>	<u>\$ 68,611</u>

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**BUDGETING HIGHLIGHTS**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the community school's contract with its Sponsor.

The contract between the School and its Sponsor does prescribe a budgetary process. The School must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education, annually.

**CAPITAL ASSETS**

At fiscal year end, the School's net capital asset balance was \$526,401. This balance represents current year additions of \$694,363 offset by current year depreciation of \$167,962. For more information on capital assets, see Note 6 of the Basic Financial Statements.

**DEBT**

During the fiscal year, the School received monies from a revolving line of credit from GEMS Education Solutions in the amount of \$959,700. In February, 2014 GEMS forgave all but \$250,000 of the outstanding debt. Additionally, accounts payable due to GEMS of \$1,603,688 was also forgiven. For more information over the School's debt, see Note 5 and Note 14 of the Basic Financial Statements.

**CURRENT FINANCIAL ISSUES**

The School is a community school and is funded through the State of Ohio Foundation Program. The School relies on this, as well as, State and Federal funds as its primary source of revenue.

With no projected increase in per pupil funding for fiscal year 2014, the School will need to continue to closely manage expenses and evaluate the impact this will have on current and future year operations.

Overall, the School will continue to provide learning opportunities and apply resources to best meet the needs of students.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 12200 Fairhill Road, Cleveland, Ohio 44120 or e-mail at [dave@massasolutionsllc.com](mailto:dave@massasolutionsllc.com).

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

**Statement of Net Position  
At June 30, 2013**

**Assets**

*Current Assets:*

Cash	\$ 31,998
Accounts Receivable	10,290
Grants Receivable	78,785
Other Assets	<u>30,519</u>

Total Current Assets 151,592

*Noncurrent Assets:*

Capital Assets:

Depreciable Capital Assets, net	<u>526,401</u>
---------------------------------	----------------

Total Assets \$ 677,993

**Liabilities**

*Current Liabilities:*

Accounts Payable	\$ 120,324
Intergovernmental Payable	42,375
Accrued Expenses	196,683
Note Payable – GEMS Education	<u>250,000</u>

Total Liabilities \$ 609,382

**Net Position**

Net Investment in Capital Assets	526,401
Unrestricted	<u>(457,790)</u>

Total Net Position \$ 68,611

See accompanying notes to the basic financial statements

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2013**

**Operating Revenues**

State Aid	\$ 2,550,988
Other	27,697
Total Operating Revenues	<u>2,578,685</u>

**Operating Expenses**

Purchased Services	4,411,132
Materials and Supplies	321,295
Sponsor Fees	74,547
Depreciation	167,962
Other	65,012
Total Operating Expenses	<u>5,039,948</u>

**Operating (Loss)** (2,461,263)

**Non-Operating Revenues**

Federal Grants	216,486
Management Company Contributions	1,603,688
Debt Forgiveness	709,700
Total Non-Operating Revenue	<u>2,529,874</u>

**Change in Net Position** 68,611

**Net Position, Beginning of Year** -

**Net Position, End of Year** \$ 68,611

See accompanying notes to the basic financial statements

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013**

**Increase (Decrease) in Cash**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 2,550,988
Cash Received from Other Operating Sources	18,678
Cash Payments to Suppliers for Goods and Services	<u>(2,940,706)</u>
Net Cash Used for Operating Activities	(371,040)

**Cash Flows from Non Capital Financing Activities**

Cash Proceeds from Note Payable GEMS	756,343
Cash Received from Federal Grants	<u>137,701</u>
Net Cash Provided by Non capital Financing Activities	894,044

**Cash Flows from Capital and Related Financing Activities**

Cash Payments for Capital Acquisitions	(694,363)
Cash Payments for Capital Acquisitions - GEMS	<u>203,358</u>
Net Cash Provided by Capital Financing Activities	(491,005)

**Net Increase in Cash and Cash Equivalent** 31,998

**Cash, Beginning of Year** -

**Cash, End of Year** \$ 31,998

**(Continued)**

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013  
(Continued)**

**RECONCILIATION OF OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

<b>Operating Loss</b>	\$ (2,461,263)
Depreciation	167,962
Management Company Contributions	1,603,688
Changes in Assets and Liabilities:	
Increase/ (Decrease) in Accounts Payable	120,324
Increase/ (Decrease) in Intergovernmental Payable	42,375
Increase/ (Decrease) in Accrued Expenses	196,683
(Increase)/ Decrease in Accounts Receivable	(10,290)
(Increase)/ Decrease in Other Assets	<u>(30,519)</u>
Net Cash Used for Operating Activities	\$ (371,040)
<b>Non Cash Transactions</b>	
Debt Forgiveness	\$ 709,700
Management Company Contributions	1,603,688

See accompanying notes to the basic financial statements

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**1. DESCRIPTION OF THE ENTITY**

Believe to Achieve, Cleveland (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The School operates on a foundation, which fosters character building for all students, parents and staff members. 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 acquire facilities as needed and contract for any services necessary for the operation of the School. This is the School's first year of operation.

The School was approved for operation under a contract with Ohio Council of Community Schools, ("OCCS") (the Sponsor) for a five year period commencing on July 1, 2012. 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 operates under the direction of a Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board controls the School's instructional and administrative staff.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes in net position, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 identifies the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. 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 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided for in the School's sponsorship agreement. The contract between the School and its Sponsor requires a detailed budget for each year of the contract.

**D. Cash**

Cash received by the School is reflected as "Cash" on the Statement of Net Position. The School did not have any investments during the year ended June 30, 2013.

**E. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost. Donated capital assets are recorded at their fair market values as of the date received. The costs of additions are capitalized and expenses for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the financial records and any gain or loss is included in additions to or deductions from net position. Capital assets were \$526,401, as of June 30, 2013, net of accumulated depreciation. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets which are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Technology Assets	3 years
Furniture & Equipment	5 years
Textbooks	3 years



**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Capital Assets and Depreciation - Continued**

The School's policy for asset capitalization threshold is \$5,000. Assets or certain asset groups not meeting the capitalization threshold are not capitalized and are not included in the assets represented in the accompany Statement of Net Position.

**G. Intergovernmental Revenues**

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as 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 eligibility requirements have been met.

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 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.

The School also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs the School recorded \$2,550,988 this fiscal year from the Foundation Program and \$216,486 from Federal grants.

**H. Accrued Liabilities**

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, note payable, and accrued expenses, totaling \$609,382 at June 30, 2013.

**I. Exchange and Non-Exchange Transactions**

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 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 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 expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Net Position**

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

**K. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating. There were no non-operating expenses reported at June 30, 2013.

**3. CASH**

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The School maintains its cash balances at one financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2013, the book amount of the School's deposits was \$31,998 and the bank balance was \$98,462.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2013, none of the bank balance was exposed to custodial credit risk.

**4. RECEIVABLES**

**A. Accounts Receivable**

The School had accounts receivables totaling \$10,290 at June 30, 2013. These receivables represented monies earned, but not received as of June 30, 2013.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**4. RECEIVABLES (Continued)**

**B. Grants Receivable**

The School had allocated balances of federal Title I and IDEA grant monies at June 30, 2013 that were not fully expended and will be carried into the following fiscal year in the amount of \$78,785.

**5. NOTE PAYABLE**

On August 30, 2012, the School entered into a revolving line of credit agreement with GEMS Education Solutions – Americas, Inc. in the amount of \$1.5 million. The revolving line of credit has a maturity date of June 30, 2014 and accrues interest at a rate of 8%. These funds were used to cover the start-up costs and short term operating expenses. In February, 2014 GEMS forgave all but \$250,000 of the outstanding debt. The activity during the year is reflected as follows:

<b>Note Amount</b>	<b>Balance July 1, 2012</b>	<b>Increase</b>	<b>Decrease*</b>	<b>Balance June 30, 2013</b>
\$1,500,000	<u>\$ -</u>	<u>\$ 959,700</u>	<u>\$ (709,700)</u>	<u>\$ 250,000</u>

\*Represents debt forgiven, see Note 14

**6. CAPITAL ASSETS**

For the year ending June 30, 2013, the School's capital assets consisted of the following:

	<b>Balance 06/30/12</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 06/30/13</b>
<b>Capital Assets:</b>				
Technology Assets	\$ -	\$ 167,880	\$ -	\$ 167,880
Furniture & Equipment	-	205,699	-	205,699
Textbooks	<u>-</u>	<u>320,784</u>	<u>-</u>	<u>320,784</u>
<b>Total Capital Assets</b>	-	694,363	-	694,363
<b>Less Accumulated Depreciation:</b>				
Technology Assets	-	(45,813)	-	(45,813)
Furniture & Equipment	-	(33,712)	-	(33,712)
Textbooks	<u>-</u>	<u>(88,437)</u>	<u>-</u>	<u>(88,437)</u>
<b>Total Accumulated Depreciation</b>	<u>-</u>	<u>(167,962)</u>	<u>-</u>	<u>(167,962)</u>
<b>Capital Assets, Net</b>	<u>\$ -</u>	<u>\$ 526,401</u>	<u>\$ -</u>	<u>\$ 526,401</u>

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**7. RISK MANAGEMENT**

**A. Property & Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending June 30, 2013, the School contracted with The Cincinnati Insurance Company for nonprofits and maintained general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and a combined policy aggregate coverage for various liability coverage in the amount of \$5,000,000.

**B. Workers' Compensation**

The School 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.

**8. DEFINED BENEFIT PENSIONS PLANS**

The School has contracted with GEMS Education Solutions to provide all teaching and administrative personnel. Such personnel are employees of GEMS; however, the School is responsible for monitoring and ensuring that GEMS makes pension contributions on its behalf. The retirement systems consider GEMS as the "Employer of Record", however the School is ultimately responsible for remitting contributions to each of the systems noted below.

**A. School Employees Retirement System (SERS Ohio)**

**Plan Description** – The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 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 contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/ Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2013 were \$29,221, which equaled the required contribution for the year or 100%.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**8. DEFINED BENEFIT PENSIONS PLANS (Continued)**

**B. State Teachers Retirement System (STRS 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](http://www.strsoh.org) under "publications".

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

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

**Funding Policy** - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2013 were \$132,483 which equaled the required contribution for the year or 100%.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**9. POST EMPLOYMENT BENEFITS**

**A. School Employee Retirement System (SERS Ohio)**

**Plan Description** - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in 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 Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under Employers/Audit Resources.

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, .16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statute provides that no employer shall pay a health care surcharge greater than 2.0 percent of the employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School's contribution for health care (including surcharge) for the fiscal year ended June 30, 2013 were \$4,145, which equaled the required contribution for the year or 100%.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**9. POST EMPLOYMENT BENEFITS (Continued)**

**A. School Employee Retirement System (SERS Ohio) (Continued)**

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal year ended June 30, 2013 was \$1,651, which equaled the required contribution for the year or 100%.

**B. State Teachers Retirement System (STRS 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](http://www.strsoh.org) under "publications" or by calling (888) 227-7877.

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal year ended June 30, 2013 were \$10,191, which equaled the required contribution for the year or 100%.

**10. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

**B. Litigation**

There are currently no matters in litigation with the School as defendant.

**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**10. CONTINGENCIES (Continued)**

**C. Full-Time Equivalency**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the fiscal year 2013 reviews, the School owes \$42,375 to ODE, which has been reported as an intergovernmental payable on the statement of net position.

**11. SPONSOR AND MANAGEMENT CONTRACTS**

**A. Sponsor**

The School contracted with Ohio Council of Community Schools as its sponsor and oversight services as required by law. Sponsorship fees are calculated as a three percent of state funds received by the School from the State of Ohio. For the fiscal year ended June 30, 2013, the total sponsorship fees paid totaled \$75,818.

**B. Management Company**

The School entered into an agreement with GEMS Education Solutions, a for profit management company, to provide the GEMS educational model, legal, financial, and other management support services. GEMS also employs the employees and provides payroll services, fringe benefits and retirement contributions for the employees.

The agreement was for a period of five years beginning February 29, 2012. Management fees are calculated as 17% of the total revenues received from the State of Ohio in the first year, and 15% in years thereafter. The total amount paid by the School for the fiscal year ending June 30, 2013 was \$434,516 and is included under "Purchased Services" on the Statement of Revenues, Expenses and Changes in Net Position.

**12. PURCHASED SERVICES**

For the year of July 1, 2012 through June 30, 2013, the School had the following purchased services expenses.

Salaries and Benefits	\$ 1,851,181
Professional and Technical Services	1,235,597
Property Services	725,126
Travel and Meetings	16,985
Contractual Trade Services	221,593
Pupil Transportation	360,650
	<hr/>
	\$ 4,411,132
	<hr/>



**BELIEVE TO ACHIEVE, CLEVELAND  
CUYAHOGA COUNTY**

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

**13. LEASE OBLIGATIONS**

On June 2, 2012, the School entered into an operating lease with the Fairhill Partners for space located at 12200 Fairhill Road, Cleveland, Ohio 44120, commencing on August 1, 2012. The term of the lease is for a period of five years. Base rent expense for the fiscal year ended 2013 was \$208,439 and each year on the anniversary of the lease the rent shall automatically increase 3% of the current rental amount. On December 18, 2012 the lease was amended, adding additional square footage in the facility beginning August 2013 and through the remaining term of the original lease. The second amendment to the lease was signed on August 13, 2013, adding additional square footage for a multi-purpose room and lunchroom through the current school year.

On July 19, 2012, the School entered into an operating lease with the ShoreBank Enterprise Group for space located at 540 East 105<sup>th</sup> Street, Cleveland, Ohio 44108 commencing on August 1, 2012. The term of the lease is for a period of one year. Base rent expense for the fiscal year ended 2013 was \$342,479.

Future lease obligations are as follows:

	<u>Fairhill</u>	<u>E 105th</u>	<u>Total</u>
2014	\$ 398,496	\$ 31,171	\$ 429,667
2015	478,136	-	478,136
2016	449,653	-	449,653
2017	463,142	-	463,142
2018	36,689	-	36,689
Total	<u>\$ 1,826,116</u>	<u>\$ 31,171</u>	<u>\$ 1,857,287</u>

**14. DEBT FORGIVENESS**

On February 27, 2014, the School and GEMS Education Solutions signed an amendment to the Business and Academic Services Agreement, which forgives all debts as owed to GEMS Education Solutions, except for \$250,000. Of the debt forgiven, \$1,603,688 was for accounts payable due to GEMS and \$709,700 reduced the note payable to GEMS. The financial statements reflect the adjustment for the forgiveness of debt with exception for the \$250,000.

**THIS PAGE INTENTIONALLY LEFT BLANK.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Believe to Achieve, Cleveland  
Cuyahoga County  
12200 Fairhill Road  
Cleveland, Ohio 44120

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Believe to Achieve, Cleveland, Cuyahoga County, (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 11, 2014, wherein we noted the School experienced financial difficulties during the year ended June 30, 2013.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

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

April 11, 2014



# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedures

Believe to Achieve, Cleveland  
Cuyahoga County  
12200 Fairhill Road  
Cleveland, Ohio 44120

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

1. We noted the Board adopted an anti-harassment policy at its meeting on June 5, 2012.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State

April 11, 2014



# Dave Yost • Auditor of State

**BELIEVE TO ACHIEVE-CLEVELAND**

**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  
JUNE 12, 2014**