

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

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2014





# Dave Yost • Auditor of State

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

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, 2013 through June 30, 2014. 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

June 6, 2015

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

*For the Fiscal Year Ended June 30, 2014  
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March 31, 2015

To the Board of Trustees  
Breakthrough Charter Schools:  
Cleveland Entrepreneurship Preparatory School  
1417 East 36<sup>th</sup> Street  
Cleveland, Ohio 44114

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2014, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School, Cuyahoga County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the School's internal control over financial reporting and on 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 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 School's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Medina, Ohio

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

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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, 2014. 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 2014 are as follows:

- In total, net position decreased by \$1,177,393 or 71 percent from \$1,649,121 to \$471,728.
- The School had operating revenues of \$2,660,774 and operating expenses of \$3,548,604 for fiscal year 2014. The School also had \$979,926 in non-operating revenues and \$1,269,489 in non-operating expenses during fiscal year 2014.
- The School recognized a net loss on the disposal of capital assets in the amount of \$1,248,600.

### **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 position and statement of revenues, expenses and changes in net position 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 Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows*

These documents answer the question, "How did we do financially during 2014?" These statements include all assets, liabilities, deferred outflows/inflows of resources, 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.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

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 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 8 and 9 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 10 of this report.

The table below provides a summary of the School's net position for the fiscal years 2014 and 2013:

<b>Table 1 - Net Position</b>		
	2014	2013
<b>ASSETS</b>		
Current Assets	\$ 657,480	\$ 373,884
Capital Assets, Net	124,824	2,341,128
<b>Total Assets</b>	<b>782,304</b>	<b>2,715,012</b>
<b>LIABILITIES</b>		
Current Liabilities	310,576	331,508
Noncurrent Liabilities	-	734,383
<b>Total Liabilities</b>	<b>310,576</b>	<b>1,065,891</b>
<b>NET POSITION</b>		
Investment in Capital Assets	124,824	1,447,167
Unrestricted	346,904	201,954
<b>Total Net Position</b>	<b>\$ 471,728</b>	<b>\$ 1,649,121</b>

At June 30, 2014, the School's net position totaled \$471,728. Total assets decreased by \$1,932,708 when compared to 2013. This decrease is due to the disposal of leasehold improvements associated with the cancellation of the building lease.

The decrease in liabilities is primarily due to the full retirement of the School's long-term debt in fiscal year 2014. Friends of Breakthrough assumed the outstanding long-term debt associated with the building lease upon the cancellation of the previous lease agreement by the School.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

The table below shows the change in net position for the fiscal years 2014 and 2013:

**Table 2 - Change in Net Position**

	2014	2013
<b>OPERATING REVENUES</b>		
State Foundation	\$2,372,448	\$ 1,808,424
Extracurricular Activities	32,456	11,911
Classroom Materials and Fees	610	1,988
Other Operating Revenues	255,260	217,266
<b>Total Operating Revenues</b>	<b>2,660,774</b>	<b>2,039,589</b>
<b>OPERATING EXPENSES</b>		
Salaries and Wages	1,507,053	1,407,671
Fringe Benefits	385,958	335,590
Purchased Services	1,264,843	937,261
Materials and Supplies	127,885	112,300
Depreciation	152,537	153,000
Equipment	59,354	70,538
Other	50,974	54,822
<b>Total Operating Expenses</b>	<b>3,548,604</b>	<b>3,071,182</b>
Operating Loss	(887,830)	(1,031,593)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Net Loss on Disposal of Capital Assets	(1,248,600)	-
Tax Distribution	311,722	202,651
Intergovernmental Revenues	516,198	496,097
Contributions and Donations	148,196	208,322
Insurance Recoveries	-	34,565
Interest Income	855	480
Interest and Fiscal Charges	(20,889)	(49,614)
Other Income	2,955	-
<b>Total Non-operating Revenues (Expenses)</b>	<b>(289,563)</b>	<b>892,501</b>
Change in Net Position	(1,177,393)	(139,092)
Net Position - Beginning of Year	1,649,121	1,788,213
<b>Net Position - End of Year</b>	<b>\$ 471,728</b>	<b>\$ 1,649,121</b>

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 attributed to 65 percent of total operating and non-operating revenues during fiscal year 2014.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

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The increase in foundation revenue is due to an increase in enrollment of 36 students with 293 students in fiscal year 2014 up from 257 in the prior year. The increase in tax distribution revenue from 2013 to 2014 is due to the Breakthrough network of schools participating in a partnership with the Cleveland Municipal School District (CMSD) for a property tax levy of 1 mill based on the assessed real property value within the School District. The levy is for four years and was passed in November 2012 and started collection in January 2013. The School recognized a net loss of \$1,248,600 related to the cancellation of the building lease and disposal of associated leasehold improvements.

The increase in expenses can be attributed to the increase in student enrollment from 2013 to 2014.

### **Capital Assets**

At June 30, 2014, the School had \$3,875 invested in furniture, fixtures and equipment, net of accumulated depreciation and \$120,949 invested in leasehold and building improvements, net of accumulated depreciation. See Note 7 in the notes to the basic financial statements for more detail on capital assets.

### **Long-Term Debt**

At June 30, 2014, the School had fully retired the long-term debt outstanding. See Note 15 in the notes to the basic financial statements for more detail on long-term debt.

### **Current Financial Related Activities**

The School's fiscal agent relationship with Breakthrough Charter Schools, a Charter Management Organization, continued during 2013-2014. During the 2013-2014 school year, there were 293 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 Angela M. Neeley, Treasurer, 10118 Hampden Avenue, Cleveland, Ohio 44108 or email [aneeley@breakthroughschools.org](mailto:aneeley@breakthroughschools.org).

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

*Statement of Net Position  
June 30, 2014*

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**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 405,006
Receivables:	
Intergovernmental - Federal and State Grants	138,790
Pension	23,423
Pledge	25,000
Other	62,093
Prepaid Items	<u>3,168</u>
<b>Total Current Assets</b>	<u>657,480</u>

**Noncurrent Assets:**

Capital Assets, Net of Depreciation	<u>124,824</u>
<b>Total Assets</b>	<u>782,304</u>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	184,950
Accrued Wages and Benefits	<u>125,626</u>
<b>Total Liabilities</b>	<u>310,576</u>

**NET POSITION**

Investment in Capital Assets	124,824
Unrestricted	<u>346,904</u>
<b>Total Net Position</b>	<u>\$ 471,728</u>

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 Position  
For the Fiscal Year Ended June 30, 2014*

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<b>OPERATING REVENUES</b>	
State Foundation	\$2,372,448
Extracurricular Activities	32,456
Classroom Materials and Fees	610
Other Operating Revenues	<u>255,260</u>
<b>Total Operating Revenues</b>	<u>2,660,774</u>
 <b>OPERATING EXPENSES</b>	
Salaries and Wages	1,507,053
Fringe Benefits	385,958
Purchased Services	1,264,843
Materials and Supplies	127,885
Depreciation	152,537
Equipment	59,354
Other	<u>50,974</u>
<b>Total Operating Expenses</b>	<u>3,548,604</u>
Operating Loss	<u>(887,830)</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Net Loss on Disposal of Capital Assets	(1,248,600)
Interest Income	855
Interest and Fiscal Charges	(20,889)
Tax Distribution	311,722
Intergovernmental	516,198
Contributions and Donations	148,196
Other Revenues	<u>2,955</u>
<b>Total Non-operating Revenues (Expenses)</b>	<u>(289,563)</u>
Change in Net Position	(1,177,393)
 Net Position - Beginning of Year	 <u>1,649,121</u>
<b>Net Position - End of Year</b>	<b><u><u>\$ 471,728</u></u></b>

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, 2014*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from State of Ohio	\$ 2,372,448
Cash Received from Other Operations	247,879
Cash Payments for Salaries and Wages	(1,507,053)
Cash Payments for Fringe Benefits	(359,922)
Cash Payments for Purchased Services	(1,094,967)
Cash Payments for Materials and Supplies	(127,885)
Cash Payments for Equipment	(59,354)
Cash Payments for Other Expenses	(54,142)
Net Cash Used in Operating Activities	<u>(582,996)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal and State Grants	499,922
Tax Distribution	311,722
Contributions and Donations	162,775
Other Non-Operating Revenues	2,955
Net Cash Provided by Noncapital Financing Activities	<u>977,374</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal Paid on Long-term Debt	(78,794)
Interest Paid on Long-term Debt	(20,889)
Net Cash Used in Capital and Related Financing Activities	<u>(99,683)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	855
Net Cash Provided by Investing Activities	<u>855</u>
Net Increase in Cash and Cash Equivalents	295,550
Cash and Cash Equivalents - Beginning of Year	109,456
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 405,006</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>	
Operating Loss	\$ (887,830)
Adjustments:	
Depreciation	152,537
(Increase) Decrease in Assets:	
Pension Receivable	25,783
Other Receivable	(40,447)
Prepaid Items	28,315
Increase in Liabilities:	
Accounts Payable	138,393
Accrued Wages and Benefits	253
Net Cash Used in Operating Activities	<u><u>\$ (582,996)</u></u>

**Schedule of Noncash Capital and Related Financing Activities**

Friends of Breakthrough assumed the outstanding balance of the long-term debt in the amount of \$815,167. Refer to Note 13 for additional information.

See accompanying notes to the basic financial statements

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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**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 six to eight 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 Municipal 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 seven-member Board of Trustees through October 3, 2012. On October 3, 2012, the Board of Trustees elected an additional eight members to the Board who were serving on the three other Prep Model Boards, as permitted by Senate Bill 316. 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 8 non-certified and 30 certificated full time teaching personnel who provide services to 293 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's significant accounting policies are described below.



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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

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

**B. Measurement Focus**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities, and deferred outflows/inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 deferred inflows.

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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

**C. Basis of Accounting (Continued)**

*Deferred Outflows/Inflows of Resources* - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. As of June 30, 2014, the School did not have any deferred outflows of resources.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2014, the School did not have any deferred inflows of resources.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis.

**E. Cash and Cash Equivalents**

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

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

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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

**F. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School does not have any infrastructure. The School maintains a capitalization threshold at \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the remaining useful life of the related capital assets. Building Improvements are depreciated over 30 years, leasehold improvements are depreciated over 20 years and furniture, fixtures and equipment are depreciated over five years.

**G. Net Position**

Net position represents the difference between assets and deferred outflows of resources compared to liabilities and deferred inflows of resources. 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. Net position is reported as restricted when there are limitations imposed on their use 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 position 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, extracurricular activities, classroom materials and fees, and other operating revenues, including reimbursements of salaries and benefits for employees. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the School. All revenues and expenses not meeting this definition are reported as nonoperating.

**I. Prepaid Items**

Payments made to vendors for services that will benefit fiscal years beyond June 30, 2014 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.

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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

**J. Intergovernmental Revenue**

The School currently participates in the State Foundation Basic Aid, Teacher Incentive Fund (TIF), Title I, Food Service, IDEA-B, Title II-A, and Race to the Top. The State Foundation Basic Aid (which includes casino revenue) is recognized as operating revenue. All of the other grant revenues received from these programs are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Amounts recognized under the above named programs for the 2014 school year totaled \$2,888,646.

**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. Contributions and donations received for the 2014 school year totaled \$148,196.

**BREAKTHROUGH CHARTER SCHOOLS:  
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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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

**N. Changes in Accounting Principles**

GASB Statement Number 66, *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the School.

GASB Statement Number 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the School.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the School.

The aforementioned Statements did not have an effect on the School's financial statements.

**NOTE 3 – SPONSORSHIP AND MANAGEMENT AGREEMENTS**

The School entered into an agreement with the Cleveland Municipal School District for a period of five years commencing July 1, 2010. Sponsorship fees are calculated as 1.5% of the fiscal year 2014 foundation payments received by the School, from the State of Ohio. The total amount due from the School for fiscal year 2014 was \$34,968, of which \$17,305 remained outstanding as of June 30, 2014 and is recorded as a liability. Sponsorship fees are recorded as professional and technical services within the purchased services expense on the Statement of Revenues, Expenses, and Change in Net Position.

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*Notes to the Basic Financial Statements  
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**NOTE 3 – SPONSORSHIP AND MANAGEMENT AGREEMENTS (Continued)**

The School entered into an agreement with Breakthrough Charter Schools to provide academic and business services beginning July 1, 2010 for an initial term of five years. Management fees are calculated as 10% of the fiscal year 2014 foundation payments received by the School from the State of Ohio. The total amount due from the School for the fiscal year ending June 30, 2014 was \$219,672, of which \$27,815 is outstanding as of June 30, 2014, and is recorded as a liability. Management fees are recorded as professional and technical services within purchased services on the Statement of Revenues, Expenses, and Changes in Net Position.

**NOTE 4 – DEPOSITS**

**Deposits with Financial Institutions**

At June 30, 2014, the carrying amount of all School's deposits was \$405,006. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2014, \$260,262 of the School's bank balance of \$510,262 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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*Notes to the Basic Financial Statements  
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**NOTE 5 – RECEIVABLES**

Receivables at June 30, 2014, consisted of intergovernmental receivables arising from grants and entitlements, pension, pledges, and other receivables. Intergovernmental receivables are considered collectible in full due to the current year guarantee of federal funds and the stable condition of state programs. A summary of the principal items of receivables follows:

	<u>Receivables</u>
Intergovernmental - Federal and State Grants:	
Title I	\$ 96,791
IDEA B	12,802
Title II-A	345
Food Service	16,876
Race to the Top	5,673
TIF	<u>6,303</u>
Total Intergovernmental - Federal and State Grants	138,790
Pension Receivable	23,423
Pledges Receivable	25,000
Other Receivable	<u>62,093</u>
Total Receivables	<u>\$ 249,306</u>

**NOTE 6 – TAX DISTRIBUTION**

The Breakthrough network of schools participate in a partnership with the Cleveland Municipal School District (CMSD) for a property tax levy of 1 mill based on the assessed real property value within the School District. The levy is for four years and was passed in November 2012 and started collection in January 2013.

Each school receives property taxes, based on a collection rate of 76.1 percent of the revenue generated from the 1 mill, on a pro-rata basis of all community schools participating in the CMSD partnership levy.

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**NOTE 7 – CAPITAL ASSETS**

A summary of the School’s capital assets at June 30, 2014, follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
<b>Capital Assets:</b>				
Building Improvements	\$ 156,596	\$ -	\$ -	\$ 156,596
Furnitures, Fixtures, and Equipment	56,829	-	-	56,829
Leasehold Improvements	2,767,061	-	(2,767,061)	-
<b>Total Capital Assets</b>	<u>2,980,486</u>	<u>-</u>	<u>(2,767,061)</u>	<u>213,425</u>
<b>Less Accumulated Depreciation:</b>				
Building Improvements	(30,427)	(5,220)	-	(35,647)
Furnitures, Fixtures, and Equipment	(43,990)	(8,964)	-	(52,954)
Leasehold Improvements	(564,941)	(138,353)	703,294	-
<b>Total Accumulated Depreciation</b>	<u>(639,358)</u>	<u>(152,537)</u>	<u>703,294</u>	<u>(88,601)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 2,341,128</u>	<u>\$ (152,537)</u>	<u>\$ (2,063,767)</u>	<u>\$ 124,824</u>

Refer to Note 13 for additional information related to the disposal of leasehold improvements.

**NOTE 8 – 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 2014, the School contracted with the O’Neill Group with the following insurance coverage:

Commercial General Liability per Occurrence	\$1,000,000
Commercial General Liability Aggregate	3,000,000
Umbrella Coverage per Occurrence	15,000,000
Umbrella Coverage per Aggregate	15,000,000
Commercial Property (\$5,000 Deductible)	3,110,000
Crime Coverage (\$1,000 Deductible) Each Employee	1,000,000
Computer Coverage (\$1,000 Deductible)	100,000
Employee Benefits Liability (\$1,000 Deductible) Each Employee	1,000,000
Employee Benefits Liability (\$1,000 Deductible) Aggregate	1,000,000



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**NOTE 8 – RISK MANAGEMENT (Continued)**

**A. Insurance Coverage (Continued)**

Insurance coverage continued:

Employers Stop Gap Liability	1,000,000
School Board Legal Liability per Aggregate (\$2,500 Deductible)	1,000,000
School Board Legal Liability per Occurrence (\$2,500 Deductible)	3,000,000
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 1417 East 36<sup>th</sup> Street, Cleveland, Ohio (See Note 13).

**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 30 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 52 – 75% of the Point of Service (POS) \$250 deductible plan and subsidizes between 65 – 86% for the Health Savings Account (HSA) \$2,600 deductible plan. The school subsidizes the cost of dental insurance. Vision insurance and voluntary life is paid by the employee. Long-term disability insurance, short-term disability, and basic life insurance benefits are paid by the School. Total insurance benefits paid by the School for the fiscal year were \$134,197.

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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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**NOTE 9 – 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, 2014.

**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. Adjustments to the State funding received during fiscal year 2014 have been calculated and determined to be immaterial and will be included in the financial activity for fiscal year 2015.

**NOTE 10 – PENSION PLANS**

**A. School Employees Retirement System**

*Plan Description* - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employer/Audit Resources*.

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*Notes to the Basic Financial Statements  
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**NOTE 10 – PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

*Funding Policy* - Plan members are required to contribute 10.00 percent of their annual covered salary and the School is required to contribute 14.00 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14.00 percent employer contribution rate is allocated to the Health Care and Medicare B funds. The School's pension and death benefits contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were \$30,939, \$31,504 and \$81,045, respectively; 100.00 percent has been contributed for fiscal years 2014, 2013, and 2012.

**B. State Teachers Retirement System of Ohio**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. 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 Street, Columbus, Ohio 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**Plan Options** - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 9.50 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

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**NOTE 10 – PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has **(i)** five years of service credit and attained age 60; **(ii)** 25 years of service credit and attained age 55; or **(iii)** 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.20 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.50 percent with an additional one-tenth of a percent added to the calculation for every year of earned Ohio service over 31 years (2.60 percent for 32 years, 2.70 percent for 33 years and so on) until 100.00 percent of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.50 percent instead of 2.20 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 9.50 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members’ designated beneficiary is entitled to receive the members’ account balance.

**Combined Plan Benefits** - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1.00 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

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*Notes to the Basic Financial Statements  
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**NOTE 10 – PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year ended June 30, 2014, members were required to contribute 11.00 percent of their annual covered salary and the School was required to contribute 14.00 percent. Member and employer contribution rates were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 14.00 percent for members and 14.00 percent for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14.00 percent contributed by the School, 13.00 percent was the portion used to fund pension obligations.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$164,622, \$151,734 and \$182,427, respectively; 100.00 percent has been contributed for fiscal years 2014, 2013 and 2012.

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**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

*Plan Description* – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 10, SERS administers two postemployment benefit plans.

**Medicare Part B Plan** - The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50 if they participated in on SERS' health care plans.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation is 0.76 percent. The School's contributions for Medicare Part B Plan for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,795, \$1,780 and \$1,663, respectively; 100.00 percent has been contributed for fiscal years 2014, 2013, and 2012.

**Health Care Plan** – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

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**NOTE 11 – POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employees Retirement System (Continued)**

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14.00 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14 percent. 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 2.00 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.50 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14.00 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$3,070, \$10,588 and \$1,220, respectively; 100.00 percent has been contributed for fiscal years 2014, 2013, and 2012.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

**B. State Teachers Retirement System of Ohio**

*Plan Description* – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

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**NOTE 11 – POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

*Funding Policy* - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 1.00 percent of covered payroll was allocated to post-employment health care for years ended June 30, 2014, 2013 and 2012. Effective July 1, 2014, 0.00 percent of the covered payroll was allocated to post-employment health care. The 14.00 percent employer contribution rate is the maximum rate established under Ohio law. The School's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$12,663, \$11,672 and \$13,031, respectively; 100.00 percent has been contributed for fiscal years 2014, 2013 and 2012.

**NOTE 12 – PURCHASED SERVICES**

For the fiscal year ended June 30, 2014, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	\$ 528,691
Property Services	321,660
Travel Mileage/Meeting	17,596
Communications	14,989
Utilities	62,951
Contracted Craft or Trade Service	148,445
Pupil Transportation	170,511
Total	<u>\$ 1,264,843</u>



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*Notes to the Basic Financial Statements  
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**NOTE 13 – OPERATING LEASES**

The School entered into a lease agreement with Graystone Properties for use of the property located on 1417 E. 36<sup>th</sup> St., Cleveland, OH. It is a non-cancelable agreement that expires on June 30, 2022. The fourth amendment to the lease was signed on September 13, 2012. The average 2013 monthly base and common area rent for this facility is \$9,921 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. The School is not required to pay base rent during the 1<sup>st</sup>, 2<sup>nd</sup>, 83<sup>rd</sup> and 95<sup>th</sup> 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. Rent and related expenses under the leases was \$258,572 for the fiscal year ended June 30, 2014.

In December 2013, the School entered into a cancellation of the lease agreement with Tylerville, LLC. Friends of Breakthrough subsequently entered into a lease agreement with Tylerville, LLC and a sublease agreement with the School. The Sublease agreement expires June 30, 2023 or upon the termination of the business services agreement with Breakthrough Charter Schools. As part of this agreement Friends of Breakthrough assumed the remaining balance of the long-term debt related to the original lease agreement for leasehold improvements. The School has recorded a net loss on the disposal of capital assets related to leasehold improvements in the amount of \$1,248,600 which includes the loss on disposal of capital assets of \$2,063,767 and a gain related to the assumption of debt by Friends of Breakthrough of \$815,167.

During the subsequent year and the remainder of the lease term, the annual rent expense of \$566,253 will be allocated between Cleveland Entrepreneurship Preparatory and Village Preparatory – Cliffs. The allocation will be determined before the commencement of each school year and based on the number of students targeted for enrollment for each school as of June 30<sup>th</sup> of the prior school year.

**NOTE 14 – FISCAL AGENT**

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

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

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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

**NOTE 15 - 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. During fiscal year 2014, Friends of Breakthrough assumed the remaining long-term debt as part of the lease agreement discussed in further detail in Note 13.

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014	Amounts Due in One Year
Tylerville, LLC	\$ 893,961	\$ -	\$ 893,961	\$ -	\$ -

**NOTE 16 – PRIVATE DONATION**

The School is a separate corporation from Friends of Breakthrough Schools, an Ohio not-for-profit corporation. Friends of Breakthrough Schools is an agency that was organized to provide funding for operations for Breakthrough Charter Schools. Funding provided to Breakthrough Charter Schools: Cleveland Entrepreneurship Preparatory School from Friends of Breakthrough Schools amounted to \$122,616 for operating expenses for the School, of which \$25,000 was pledged for operating expenses and is recorded as a pledge receivable as of June 30, 2014.

March 31, 2015

To the Board of Trustees  
Breakthrough Charter Schools:  
Cleveland Entrepreneurship Preparatory School  
1417 East 36<sup>th</sup> 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, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated March 31, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. 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. We consider the deficiency described in the accompanying Schedule of Findings as item #2014-001 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item #2014-002.

### **The School's Response to Findings**

The School's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hea & Associates, Inc.*

Medina, Ohio

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

*Schedule of Findings  
June 30, 2014*

**Findings Related to the Financial Statements  
Required to be Reported In Accordance With GAGAS**

**Finding Number: 2014-001  
Material Weakness – Financial Reporting**

**Criteria:** 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. 122 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 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. 122 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 was one factor that resulted in the adjustment to the financial statements, identified below:

The School canceled the building lease during the year, but did not record the disposal of the associated leasehold improvements. This transaction also included debt forgiveness which was recorded as donations revenue rather than being included in the net loss on disposal of assets.

**Effect:** The condition described above resulted in an overstatement of capital assets in the amount of \$2,063,767; an understatement of loss from the disposal of assets in the amount of \$1,248,600; and an overstatement of contributions and donations revenue in the amount of \$815,167.

**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 to ensure a final review of the statements and notes by management 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. Where necessary management will seek the guidance from a third party accountant.

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

*Schedule of Findings (Continued)  
June 30, 2014*

**FINDING #2014-002  
Material Non-Compliance – Records Retention**

**Criteria:** Ohio Rev. Code section 149.41 authorizes the School to develop its own records commission and rules. The Board of Trustees has adopted a records retention and disposal policy which specifies specific procedures to be followed in order to dispose of public records.

**Condition:** During the performance of audit procedures, we noted various checks in which the corresponding invoice was not maintained or could not be produced. The treasurer was able to contact all applicable vendors to produce a valid invoice to support the expense.

**Cause:** Documents were not properly maintained and could not be located.

**Effect:** Failure to maintain approved invoices can lead to non-compliance and improper financial reporting.

**Recommendation:** We recommend the School maintain all records in accordance with the ORC and Board of Trustee policies.

**Management Response:** Procedures will be implemented to ensure all records are maintained in accordance with the Ohio Rev. Code and School policy.

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

*Schedule of Prior Year Findings  
For the Year Ended June 30, 2014*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Noted Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2013-001	Schedule of Expenditures of Federal Awards	Yes	

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# Dave Yost • Auditor of State

**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  
JUNE 18, 2015**