

Breakthrough Charter Schools:  
Village 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:  
Village Preparatory School  
1415 East 36th Street  
Cleveland, Ohio 44114

We have reviewed the *Independent Auditor's Report* of the Breakthrough Charter Schools: Village 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: Village 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 5, 2015

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**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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:  
Village Preparatory School  
1415 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: Village 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: Village 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 Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, as required by the U.S. office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**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.

*Hea & Associates, Inc.*

Medina, Ohio



**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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: Village 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 \$661,682 or 48 percent from \$1,365,959 to \$704,277.
- The School had operating revenues of \$3,615,014 and operating expenses of \$4,425,653 for fiscal year 2014. The School also had \$1,152,783 in non-operating revenues and \$1,003,826 in non-operating expenses during fiscal year 2014.
- Enrollment increased from 340 students to 432 students.

**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:  
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CUYAHOGA COUNTY, OHIO**

*Management's Discussion and Analysis  
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(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	\$ 1,313,173	\$ 486,495
Security Deposits	391	391
Capital Assets, Net	9,113	1,084,002
<b>Total Assets</b>	<b>1,322,677</b>	<b>1,570,888</b>
 <b>LIABILITIES</b>		
Current Liabilities	618,400	204,929
 <b>NET POSITION</b>		
Investment in Capital Assets	9,113	1,084,002
Restricted	391	391
Unrestricted	694,773	281,566
<b>Total Net Position</b>	<b>\$ 704,277</b>	<b>\$ 1,365,959</b>

At June 30, 2014, the School's net position totaled \$704,277. Current assets increased in fiscal year 2014 by \$826,678 or 170 percent. The increase in current assets is primarily due to the increase in cash that resulted from an increase in foundation revenue coupled with an increase intergovernmental receivables from the Cleveland Municipal School District. The decrease in capital assets, net is due to the cancellation of the prior lease agreement resulting in the disposal of leasehold improvements.

Current liabilities increased in fiscal year 2014 by \$413,471 or 202 percent. The increase in current liabilities is primarily due to the increase in accounts payable due to timing of bill payments.

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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	\$ 3,500,690	\$ 2,584,617
Extracurricular Activities	-	427
Classroom Materials and Fees	476	518
Other Income	113,848	138,080
<b>Total Operating Revenues</b>	<u>3,615,014</u>	<u>2,723,642</u>
<b>OPERATING EXPENSES</b>		
Salaries and Wages	1,839,291	1,595,843
Fringe Benefits	467,801	397,043
Purchased Services	1,709,145	1,192,101
Materials and Supplies	265,233	190,737
Depreciation	71,063	71,282
Equipment, etc.	29,617	153,233
Other	43,503	42,776
<b>Total Operating Expenses</b>	<u>4,425,653</u>	<u>3,643,015</u>
Operating Loss	(810,639)	(919,373)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Loss on Sale of Assets	(1,003,826)	-
Tax Distribution	437,471	282,013
Intergovernmental Revenues	652,315	543,015
Contributions and Donations	58,340	143,674
Insurance Recoveries	-	32,205
Other Income	4,657	-
<b>Total Non-operating Revenues (Expenses)</b>	<u>148,957</u>	<u>1,000,907</u>
Change in Net Position	(661,682)	81,534
Net Position - Beginning of Year	1,365,959	1,284,425
<b>Net Position - End of Year</b>	<u>\$ 704,277</u>	<u>\$ 1,365,959</u>

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

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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 73 percent of total operating and non-operating revenues during fiscal year 2014.

The increases in foundation revenue coupled with the increase in salaries and wage expense and purchased services expense are due to an increase in enrollment in the School. There was an increase of 92 students in fiscal year 2014 from 340 students to 432 students.

**Capital Assets**

At June 30, 2014, the School had \$7,882 invested in furniture, fixtures and equipment, net of accumulated depreciation and \$1,231 invested in building improvements, net of accumulated depreciation. See Note 7 in the notes to the basic financial statements for more detail on capital assets.

**Current Financial Related Activities**

The School's fiscal agent relationship with Breakthrough Charter Schools, a Charter Management Organization, continues. During the 2013-2014 school year, there were 432 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:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Statement of Net Position  
June 30, 2014*

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**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 1,013,509
Receivables:	
Intergovernmental - Federal and State Grants	65,255
Intergovernmental - Cleveland Municipal School District	207,973
Pension	2,401
Other	20,655
Prepaid Items	3,380
<b>Total Current Assets</b>	<u>1,313,173</u>

**Noncurrent Assets:**

Security Deposits	391
Capital Assets, Net of Depreciation	9,113
<b>Total Noncurrent Assets</b>	<u>9,504</u>
<b>Total Assets</b>	<u>1,322,677</u>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	487,768
Accrued Wages and Benefits	100,938
Other Accrued Expenses	29,694
<b>Total Liabilities</b>	<u>618,400</u>

**NET POSITION**

Investment in Capital Assets	9,113
Restricted for:	
Security Deposits	391
Unrestricted	694,773
<b>Total Net Position</b>	<u>\$ 704,277</u>

See accompanying notes to the basic financial statements

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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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**OPERATING REVENUES**

State Foundation	\$ 3,500,690
Classroom Materials and Fees	476
Other Operating Revenues	113,848
<b>Total Operating Revenues</b>	<u>3,615,014</u>

**OPERATING EXPENSES**

Salaries and Wages	1,839,291
Fringe Benefits	467,801
Purchased Services	1,709,145
Materials and Supplies	265,233
Depreciation	71,063
Equipment, etc.	29,617
Other	43,503
<b>Total Operating Expenses</b>	<u>4,425,653</u>
Operating Loss	<u>(810,639)</u>

**NON-OPERATING REVENUES**

(Loss) on Sale of Capital Assets	(1,003,826)
Tax Distribution	437,471
Intergovernmental	652,315
Contributions and Donations	58,340
Other Revenues	4,657
<b>Total Non-operating Revenues</b>	<u>148,957</u>
Change in Net Position	(661,682)

Net Position - Beginning of Year	1,365,959
<b>Net Position - End of Year</b>	<u>\$ 704,277</u>

See accompanying notes to the basic financial statements

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2014*

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from State of Ohio	\$ 3,500,690
Cash Received from Other Operations	122,898
Cash Payments for Salaries and Wages	(1,839,291)
Cash Payments for Fringe Benefits	(507,293)
Cash Payments for Purchased Services	(1,281,261)
Cash Payments for Materials and Supplies	(265,233)
Cash Payments for Equipment, etc.	(29,617)
Cash Payments for Other Expenses	(46,883)
Net Cash Used in Operating Activities	<u>(345,990)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal and State Grants	701,607
Tax Distribution	259,192
Contributions and Donations	100,824
Other Non-Operating Revenues	4,657
Net Cash Provided by Noncapital Financing Activities	<u>1,066,280</u>
Net Increase in Cash and Cash Equivalents	720,290
Cash and Cash Equivalents - Beginning of Year	<u>293,219</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 1,013,509</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>	
Operating Loss	\$ (810,639)
Adjustments:	
Depreciation	71,063
(Increase) Decrease in Assets:	
Pension Receivable	4,102
Other Receivable	8,574
Prepaid Items	(2,867)
Increase (Decrease) in Liabilities:	
Accounts Payable	427,371
Accrued Wages and Benefits	(43,594)
Net Cash Used in Operating Activities	<u><u>\$ (345,990)</u></u>

See accompanying notes to the basic financial statements

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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: Village 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 kindergarten to grade five the knowledge, skills and habits to be effective and empowered stewards of their community. The school is currently at grades kindergarten, grade one and grade two and plans to add a grade each year to accomplish their mission. 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 July 1, 2009. 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. On July 1, 2014, the contract was extended for a five year period.

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 the Board of Trustees. The Board of Trustees is responsible for carrying out the provisions of the contract, which include but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 7 non-certified and 44 certificated full-time teaching personnel who provide services to 432 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:  
VILLAGE 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 inflow.

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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:  
VILLAGE 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 Improvement, furniture, fixtures and equipment are depreciated over five years. Leasehold improvements are depreciated over twenty 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, classroom materials and fees, and other revenues, including reimbursements of salaries and benefits for employee services. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**I. Prepaid Items**

Payments made to vendors for services that will benefit fiscal years beyond June 30, 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:  
VILLAGE 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)**

**J. Intergovernmental Revenue**

The School currently participates in the State Foundation Basic Aid, Teacher Incentive Fund (TIF), Title I, IDEA-B, Food Service, E-Rate, 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 \$4,153,005.

**K. Security Deposits**

The security deposit of \$391 is for the Bureau of Workers' Compensation.

**L. Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**M. Compensated Absences**

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.

**N. Contributions and Donations**

Non-cash contributions and donations are recorded at their fair market value on the date donated. Contributions and donations received for the 2014 school year totaled \$58,340.

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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)**

**O. 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, 2009. Sponsorship fees are calculated as 3% 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 \$103,246, all of which was paid prior to June 30, 2014. Sponsorship fees are recorded as professional and technical services within the purchased services expense on the Statement of Revenues, Expenses, and Changes in Net Position.

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 \$348,128, of which \$30,525 was outstanding as of June 30, 2014 and 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.

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*Notes to the Basic Financial Statements  
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**NOTE 4 – DEPOSITS**

**Deposits with Financial Institutions**

At June 30, 2014, the carrying amount of all School's deposits was \$1,013,509. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2014, \$793,884 of the School's bank balance of \$1,043,884 was exposed to custodial risk as discussed below, as it was not covered by the FDIC.

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

**NOTE 5 – RECEIVABLES**

Receivables at June 30, 2014, consisted of intergovernmental receivables arising from grants and entitlements, pension receivable, tax distribution 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:	
Erate	\$ 7,622
Race to the Top	11,438
Title I	22,174
IDEA B	10,870
TIF	<u>13,151</u>
Total Intergovernmental - Federal and State Grants	65,255
Intergovernmental - Cleveland Municipal School District	207,973
Pension Receivable	2,401
Other Receivable	<u>20,655</u>
Total Receivables	<u><u>\$ 296,284</u></u>

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**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.

**NOTE 7 – CAPITAL ASSETS**

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

	Balance <u>6/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2014</u>
<b>Capital Assets:</b>				
Furniture, Fixtures & Equipment	\$ 36,889	\$ -	\$ -	\$ 36,889
Building Improvements	6,147	-	-	6,147
Leasehold Improvements	1,253,497	-	(1,253,497)	-
<b>Total Capital Assets</b>	<u>1,296,533</u>	<u>-</u>	<u>(1,253,497)</u>	<u>43,036</u>
<b>Less Accumulated Depreciation:</b>				
Furniture, Fixtures & Equipment	(21,701)	(7,306)	-	(29,007)
Building Improvements	(3,687)	(1,229)	-	(4,916)
Leasehold Improvements	(187,143)	(62,528)	249,671	-
<b>Total Accumulated Depreciation</b>	<u>(212,531)</u>	<u>(71,063)</u>	<u>249,671</u>	<u>(33,923)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 1,084,002</u>	<u>\$ (71,063)</u>	<u>\$ (1,003,826)</u>	<u>\$ 9,113</u>

See Note 13 for additional information on the leasehold improvement disposal.

**BREAKTHROUGH CHARTER SCHOOLS:  
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*Notes to the Basic Financial Statements  
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**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)	1,424,500
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
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 1415 E. 36<sup>th</sup> St., Cleveland, OH 44114 (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.



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*Notes to the Basic Financial Statements  
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**NOTE 8 – RISK MANAGEMENT (Continued)**

**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 \$158,766.

**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 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.

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*Notes to the Basic Financial Statements  
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**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*.

*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 \$20,863, \$20,087 and \$21,958, 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).

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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)**

**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.

**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.

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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)**

**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.

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.

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

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

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of 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 June 30, 2014, 2013 and 2012 were \$199,932, \$187,738 and \$153,881, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**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 9, 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.

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

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

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 for the fiscal years ended June 30, 2014 and 2013 were \$1,210 and \$1,135, respectively; 100.00 percent has been contributed for fiscal years 2014 and 2013. The June 30, 2012 contributions have been included below under the Health Care Plan section.

**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.

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 \$2,911, \$2,351 and \$1,208, respectively; 100.00 percent has been contributed for fiscal years 2014, 2013 and 2012.

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

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

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.

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.

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

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

*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 \$15,379, \$14,441 and \$10,991, 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	\$ 803,619
Property Services	356,562
Travel Mileage/Meeting	11,229
Communications	12,031
Utilities	49,060
Contracted Craft or Trade Service	271,766
Pupil Transportation	204,878
Total	<u>\$ 1,709,145</u>

**NOTE 13 – OPERATING LEASES**

The School entered into a non-cancellable lease agreement effective August 1, 2010 and expires June 30, 2020, with Tylerville, LLC for use of the property located on 1415 E. 36<sup>th</sup> St., Cleveland, OH. Beginning June 1, 2011, and on the first day of each June thereafter, base rent shall adjust to be equal to the base rent for the immediately preceding twelve month period increased by the percentage increase in the United States Bureau of Labor Statistics' Cleveland-Akron, Ohio Consumer Price Index for All Urban Consumers from the month which is three (3) months prior to the month in which the immediately preceding twelve month period commenced through the month which is three (3) months prior to the month in which the subject calendar year commences. 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.



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

Rent expenses and related expenses under the lease were \$292,826 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. The School has recorded a loss on the disposal of capital assets related to leasehold improvements in the amount of \$1,003,826.

During the subsequent year and the remainder of the lease term, the annual rent expense of \$566,253 will be allocated between the Cleveland Entrepreneurship Preparatory and the Village Preparatory – Cliffs. The allocation will be determined before the commencement of the 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.

**NOTE 15 – 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 the operations of Breakthrough Charter Schools. Funding provided to the School from Friends of Breakthrough Schools amounted to \$47,500 for operating expenses.

March 31, 2015

To the Board of Trustees  
Breakthrough Charter Schools:  
Village Preparatory School  
1415 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: Village 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 and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items #2014-001 and #2014-002 to be material weaknesses.

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The School's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. 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

March 31, 2015

To the Board of Trustees  
Breakthrough Charter Schools:  
Village Preparatory School  
1415 East 36<sup>th</sup> Street  
Cleveland, Ohio 44114

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance Required by OMB Circular A-133**

**Report on Compliance for Each Major Federal Program**

We have audited Breakthrough Charter Schools: Village Preparatory School's, Cuyahoga County, Ohio (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2014. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Kea & Associates, Inc.*

Medina, Ohio

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014*

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed Through the Ohio Department of Education</i>			
Children Nutrition Cluster:			
School Breakfast Program	10.553	\$ 76,770	\$ 76,770
National School Lunch Program	10.555	155,669	155,669
Total Nutrition Cluster		232,439	232,439
<b>Total U.S. Department of Agriculture</b>		232,439	232,439
<b><u>U.S. Department of Education</u></b>			
<i>Passed Through the Ohio Department of Education</i>			
Title I	84.010	360,775	311,123
Special Education Grants to States	84.027	62,658	68,531
Improving Teacher Quality State Grants	84.367	1,450	0
ARRA - Race-to-the-Top	84.395A	8,389	16,977
<i>Passed through Breakthrough Charter Schools:</i>			
Teacher Incentive Fund	84.374	12,712	20,121
<b>Total U.S. Department of Education</b>		445,984	416,752
<b>Total Federal Assistance</b>		\$ 678,423	\$ 649,191

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

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014*

**NOTE A - BASIS OF PRESENTATION**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Schedule of Findings and Questioned Costs  
OMB Circular A-133, Section .505  
June 30, 2014*

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):  Title I  Children Nutrition Cluster: School Breakfast Program National School Lunch Program	CFDA # 84.010   CFDA #10.553 CFDA #10.555
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No



**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Schedule of Findings and Questioned Costs (Continued)  
OMB Circular A-133, Section .505  
June 30, 2014*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**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 were three factors that resulted in the adjustments to the financial statements, each independent of the other, identified below:

The School received a check for the tax distribution settlement that was never deposited in the bank account or recorded as revenue in the School’s general ledger. This check was reissued by the Cleveland Metropolitan School District subsequent to the fiscal year end.

The School was improperly posting and accounting for refunds and expenses related to the tax distribution settlements.

The School canceled the building lease during the year, but did not record the disposal of the associated leasehold improvements.

**Effect:** The first condition described above resulted in an understatement of intergovernmental receivables and tax distribution revenue in the amount of \$207,973. The second condition described above resulted in an overstatement of tax distribution revenue and accounts payable in the amount of \$29,964. The third condition described above resulted in an overstatement of capital assets and an understatement of loss from the disposal of assets in the amount of \$1,003,826.

**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 all receipts are properly accounted for and deposited as well as 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:  
VILLAGE PREPARATORY SCHOOL  
CUYAHOGA COUNTY, OHIO**

*Schedule of Findings and Questioned Costs (Continued)  
OMB Circular A-133, Section .505  
June 30, 2014*

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)**

**Finding Number: 2014-002  
Material Weakness – Payroll**

**Criteria:** While gaining an understanding of the internal controls over the payroll processing procedures, the School represented to us that the Treasurer authorizes payroll during a review of the pay period checklist. The Treasurer indicates this authorization and review by initialing the pay period checklist.

**Condition:** We performed a test of controls over the payroll transaction cycle and noted there was one out of three pay periods selected for testing in which the pay period checklist was not maintained and could not be located.

**Cause:** The pay period checklist was not maintained with the other documents for the pay period and could not be located.

**Effect:** Failure to maintain the pay period checklist resulted in controls not operating effectively over the payroll transaction cycle which increases the risk of material misstatement due to error and/or fraud.

**Recommendation:** We recommend the School ensure all established procedures are followed and all documentation is properly maintained.

**Management Response:** Management will improve its internal control policies and procedures to ensure all documents are properly approved and maintained in accordance with School policy.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.

**BREAKTHROUGH CHARTER SCHOOLS:  
VILLAGE 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

**VILLAGE 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**