Breakthrough Charter Schools: Village Preparatory School – Willard

Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Trustees
Breakthrough Charter Schools: Village Preparatory School - Willard
9401 Willard Avenue
Cleveland, Ohio 44102

We have reviewed the *Independent Auditor's Report* of the Breakthrough Charter Schools: Village Preparatory School - Willard, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. 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 - Willard is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

January 28, 2020

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BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

For the Fiscal Year Ended June 30, 2019
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December 26, 2019

To the Board of Trustees
Breakthrough Charter Schools:
Village Preparatory School - Willard
9401 Willard Avenue
Cleveland, Ohio 44102

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Breakthrough Charter Schools: Village Preparatory School - Willard, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2019, 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 - Willard, Cuyahoga County, Ohio as of June 30, 2019, 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, Schedule of the School's Proportionate Share of the Net Pension Liability: School Employees Retirement System of Ohio, Schedule of the School's Proportionate Share of the Net Pension Liability: State Teachers Retirement System of Ohio, Schedule of School's Contributions – Pension: School Employees Retirement System of Ohio, Schedule of School's Contributions – Pension: State Teachers Retirement System of Ohio, Schedule of the School's Proportionate Share of the Net OPEB Liability: School Employees Retirement System of Ohio, Schedule of the School's Proportionate Share of the Net OPEB Liability/Asset: State Teachers Retirement System of Ohio, Schedule of School's Contributions – OPEB: School Employees Retirement System of Ohio,* and *Schedule of School's Contributions – OPEB: State Teachers Retirement System of Ohio* as listed in the table of contents, 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 December 26, 2019 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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The management's discussion and analysis of Breakthrough Charter Schools: Village Preparatory School – Willard's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2019. 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 2019 are as follows:

- In total, net position decreased by $9,756 from $493,919 to $484,163.

- The School had operating revenues of $2,623,929 and operating expenses of $3,883,129 for fiscal year 2019. The School also had $1,569,876 in non-operating revenues, and $320,432 in non-operating expenses during fiscal year 2019.

- Enrollment increased from 179 students to 313 students as fiscal year 2019 is the third year the School is in operation.

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 2019?" 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.

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 11 and 12 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 13 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements, can be found on pages 14-46 of this report.

In addition to the basic financial statements and accompanying notes, this reports also presents certain required supplementary information concerning the School's net pension liability and net OPEB liability, which can be found on pages 47-57 of this report.

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The table below provides a summary of the School's net position for the fiscal years 2019 and 2018:

Table 1 - Net Position

	2019	2018
ASSETS		
Current Assets	$ 624,204	$ 532,182
Net OPEB Asset	139,291	-
Capital Assets, Net	13,779	7,567
Total Assets	777,274	539,749
DEFERRED OUTFLOWS OF RESOURCES		
Pension	2,167,128	1,669,392
OPEB	403,261	292,236
Total Deferred Outflows of Resources	2,570,389	1,961,628
LIABILITIES		
Current Liabilities	260,695	383,611
Long-term liabilities:		
Due in more than one year:		
Net Pension Liability	2,132,272	1,279,191
Net OPEB Liability	112,174	269,045
Total Liabilities	2,505,141	1,931,847
DEFERRED INFLOWS OF RESOURCES		
Pension	134,292	44,852
OPEB	224,067	30,759
Total Deferred Inflows of Resources	358,359	75,611
NET POSITION		
Investment in Capital Assets	13,779	7,567
Restricted	49,668	-
Unrestricted	420,716	486,352
Total Net Position	$ 484,163	493,919

The net pension liability (NPL), the largest single liability reported by the School at June 30, 2019, the net OPEB liability (NOL) and the net OPEB asset are reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27", and GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting net OPEB asset and deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute.

The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*.

State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflows/outflows.

At June 30, 2019, the School's net position totaled $484,163. Current assets increased by $92,022 from fiscal year 2018 mainly due to the increase in cash and cash equivalents and prepaid items. The decrease in current liabilities is due to the timing of disbursements and the significant changes in deferred outflows/inflows of resources, net pension liability and net OPEB liability/asset are due to the reporting of GASB 68 and 75 as mentioned above.

The implementation of GASB Statement No. 68 and 75 requires the reader to perform additional calculations to determine the School's Total Net Position at June 30, 2019 without the implementation of GASB Statement No. 68 and 75. This is an important exercise, as the State Pension Systems (SERS & STRS) collect, hold, invest, and distribute pensions to our employees, not the School.

Total Net Position including GASB 68 and GASB 75	$ 484,163
Add:	
Net Pension liability	2,132,272
Net OPEB Liability	112,174
Deferred Inflows - Pension	134,292
Deferred Inflows - OPEB	224,067
Less:	
Net OPEB Asset	(139,291)
Deferred Outflows - Pension	(2,167,128)
Deferred Outflows - OPEB	(403,261)
Total Net Position without GASB 68 and GASB 75	$ 377,288

The table below shows the change in net position for the fiscal years 2019 and 2018:

Table 2 - Change in Net Position

	2019	2018
OPERATING REVENUES		
State Foundation	$ 2,621,848	$ 1,483,216
Extracurricular Activities	-	3,299
Classroom Materials and Fees	-	4,167
Other Operating Revenues	2,081	10,190
Total Operating Revenues	2,623,929	1,500,872
OPERATING EXPENSES		
Salaries and Wages	1,677,551	1,140,784
Fringe Benefits	642,436	31,491
Purchased Services	1,393,602	963,398
Materials and Supplies	84,271	150,969
Depreciation	1,788	1,335
Equipment	61,197	111,587
Other	22,284	33,003
Total Operating Expenses	3,883,129	2,432,567
Operating Loss	(1,259,200)	(931,695)
NON-OPERATING REVENUES (EXPENSE)		
Tax Distribution	182,530	108,147
Federal and State Grants	861,950	2,669,383
Contributions and Donations	525,396	641,262
OFCC Passthrough Grant	(320,432)	(2,112,742)
Total Non-operating Revenues (Expense)	1,249,444	1,306,050
Change in Net Position	(9,756)	374,355
Net Position - Beginning of Year	493,919	119,564
Net Position - End of Year	$ 484,163	493,919

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 63 percent of total operating and non-operating revenues during fiscal year 2019. The decrease in federal and state grants revenue and OFCC Passthrough Grant expense is due to the School receiving the remaining $320,432 Ohio Facilities Construction Grant in fiscal year 2019 which was passed through to Friends of Breakthrough. (See Note 18).

The increases in revenue and expenses are due to the increase in enrollment (from 179 to 313 students) as fiscal year 2019 is the third year of operation of the School.

The increase in fringe benefits expense from $31,491 to $642,436 was due mainly to an increase in pension and OPEB expense. Below is a comparison of fringe benefits expense without GASB 68 and GASB 75.

	2019	**2018**
Fringe Benefits	411,530	276,251

Current Financial Related Activities

The School's fiscal agent relationship is with Breakthrough Charter Schools, a Charter Management Organization. During the 2018-2019 fiscal school year, there were 313 students enrolled in the School. The School relies on the State Foundation Funds, State and Federal Sub-Grants and private donors to provide the monies necessary to operate the School.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Doug Mangen, Treasurer, 3615 Superior Avenue, Suite 4403A, Cleveland, Ohio 44114 or email doug@mangen1.com.

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Statement of Net Position
June 30, 2019

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 372,630
Receivables:	
Intergovernmental	50,384
Pledge	154,104
Other	7,645
Tax Distribution	24
Prepaid Items	39,417
Total Current Assets	624,204
Noncurrent Assets:	
Net OPEB Asset	139,291
Capital Assets:	
Depreciable Capital Assets, Net of Depreciation	13,779
Total Assets	777,274
DEFERRED OUTFLOWS OF RESOURCES	
Pension	2,167,128
OPEB	403,261
Total Deferred Outflows of Resources	2,570,389
LIABILITIES	
Current Liabilities:	
Accounts Payable	129,481
Accrued Wages and Benefits	117,218
Intergovernmental Payable	13,996
Total Current Liabilities	260,695
Noncurrent Liabilities:	
Net Pension Liability	2,132,272
Net OPEB Liability	112,174
Total Noncurrent Liabilities	2,244,446
Total Liabilities	2,505,141
DEFERRED INFLOWS OF RESOURCES	
Pension	134,292
OPEB	224,067
Total Deferred Inflows of Resources	358,359
NET POSITION	
Investment in Capital Assets	13,779
Restricted for:	
Federally Funded Programs	269
Other	49,399
Unrestricted	420,716
Total Net Position	$ 484,163

See accompanying notes to the basic financial statements

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

OPERATING REVENUES		
State Foundation	$	2,621,848
Other Operating Revenues		2,081
Total Operating Revenues		2,623,929
OPERATING EXPENSES		
Salaries and Wages		1,677,551
Fringe Benefits		642,436
Purchased Services		1,393,602
Materials and Supplies		84,271
Depreciation		1,788
Equipment		61,197
Other		22,284
Total Operating Expenses		3,883,129
Operating Loss		(1,259,200)
NON-OPERATING REVENUES (EXPENSE)		
Tax Distribution		182,530
Federal and State Grants		861,950
OFCC Passthrough Grant		(320,432)
Contributions and Donations		525,396
Total Non-operating Revenues (Expense)		1,249,444
Change in Net Position		(9,756)
Net Position - Beginning of Year		493,919
Net Position - End of Year	$	484,163

See accompanying notes to the basic financial statements

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from State of Ohio	$ 2,618,972
Cash Received from Other Operations	5,325
Cash Payments for Salaries and Wages	(1,665,388)
Cash Payments for Fringe Benefits	(394,143)
Cash Payments for Purchased Services	(1,421,531)
Cash Payments for Materials and Supplies	(79,590)
Cash Payments for Equipment	(61,197)
Cash Payments for Other Expenses	(21,556)
Net Cash Used in Operating Activities	(1,019,108)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and State Grants	1,008,829
Tax Distribution	189,246
Contributions and Donations	330,100
OFCC Passthrough Grant	(449,199)
Net Cash Provided by Noncapital Financing Activities	1,078,976
Net Increase in Cash and Cash Equivalents	59,868
Cash and Cash Equivalents - Beginning of Year	312,762
Cash and Cash Equivalents - End of Year	$ 372,630
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES OPERATING ACTIVITIES	
Operating Loss	$ (1,259,200)
Adjustments:	
Depreciation	1,788
(Increase) Decrease in Assets and Deferred Outflows:	
Intergovernmental Receivable	3,239
Pension Receivable	9,111
Other Receivable	(5,559)
Prepaid Items	(38,436)
Net OPEB Asset	(139,291)
Deferred Outflows - Pension	(497,736)
Deferred Outflows - OPEB	(111,025)
Increase (Decrease) in Liabilities and Deferred Inflows:	
Accounts Payable	3,621
Accrued Wages and Benefits	23,764
Intergovernmental Payable	11,658
Net Pension Liability	853,081
Net OPEB Liability	(156,871)
Deferred Inflows - Pension	89,440
Deferred Inflows - OPEB	193,308
Net Cash Used in Operating Activities	$ (1,019,108)

Schedule of Noncash Transaction
Net impact of accruals for capital asset additions in amount of $8,000.

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL

Breakthrough Charter Schools: Village Preparatory School – Willard (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 four a high quality, academically rigorous education for the college bound scholar. The School served students in grades kindergarten, first, second, third, fifth, six and seventh grades during fiscal year 2019 and plans to expand to include fourth and eighth in fiscal year 2020. 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 began operations at the beginning of the 2016-2017 school year. The School was approved for operation under a contract with Cleveland Municipal School District (the "Sponsor") for a period of five years commencing July 1, 2016. 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, 2016 for an initial term of three years and will automatically be renewed for an additional two-year renewal term unless prior notice of intent is given by either party.

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 4 non-certified and 33 certificated full-time teaching personnel who provide services to 313 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant accounting policies are described on the following page.

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 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.

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. For the School, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

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. For the School, deferred inflows of resources include pension and OPEB. The deferred inflows of resources related to pension and OPEB plans are explained in Note 11 and Note 12.

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

D. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

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.

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 acquisition 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. Furniture, fixtures and equipment are depreciated over five years. Leasehold improvements are depreciated over twenty years.

G. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Statement of Net Position. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

H. 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.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity. For the School, these revenues are payments from the State Foundation Program and other operating revenues. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Prepaid Items

Payments made to vendors for services that will benefit fiscal years beyond June 30, 2019 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.

K. Intergovernmental Revenue

The School currently participates in the State Foundation Basic Aid, Ohio Facilities Construction Grant, Title I-A, Title II-A, Title IV-A, IDEA B, and Nutrition. The State Foundation Basic Aid (which includes facilities 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 2019 fiscal school year totaled $3,483,798.

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

Each full time employee is given up to ten paid days per year personal time off (PTO). Employees receive 1 day of personal leave credit for each month of service to be used for personal matters, including vacation, illness or illness in a family. PTO leave not used will not be carried over to the next year. Employees who are terminated or resign are not paid for unused PTO.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Contributions and Donations

Non-cash contributions and donations are recorded at their fair market value on the date donated. Contributions and donations recognized for the 2019 fiscal school year totaled $525,396.

O. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, net OPEB asset, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

During the fiscal year, the School implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The implementation of this Statement did not have an effect on the financial statements of the School.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of this Statement did not have an effect on the financial statements of the School.

NOTE 4 – 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, 2016. Sponsorship fees are calculated as 1.5 percent of the fiscal year 2019 foundation payments received by the School from the State of Ohio. The total amount due from the School for fiscal year 2019 was $38,160, of which $6,020 is outstanding and included as a liability as of June 30, 2019. 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, 2016 for an initial term of three years and will be automatically renewed for an additional two-year term unless prior written notice of intent to terminate is given by either party. Management fees are $1,600 per year per student based upon the Full-Time Equivalent (FTE) student calculations provided by the Ohio Department of Education via the monthly State Foundation payments. The total amount due from the School for the fiscal year ending June 30, 2019 was $500,096, of which $53,967 is outstanding and included as a liability as of June 30, 2019. Management fees are recorded as professional and technical services within purchased services on the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 5 – DEPOSITS

Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all School's deposits was $372,630. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2019, $250,000 of the School's bank balance of $398,915 was covered by FDIC and $148,915 was exposed to custodial risk as it was not covered by the FDIC.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental receivables arising from grants and entitlements, pledges receivable, and other receivable. Intergovernmental receivables are considered collectible in full due to the current year guarantee of federal funds and the stable condition of state programs.

NOTE 6 – RECEIVABLES (Continued)

A summary of the principal items of receivables follows:

	Receivables
Intergovernmental :	
Title I	$ 36,144
IDEA B	3,178
Title II-A	2,825
Food Service Equipment Grant	8,000
Medicaid	237
Total Intergovernmental	50,384
Pledge Receivable	154,104
Other Receivable	7,645
Tax Distribution	24
Total Receivables	$ 212,157

NOTE 7 – 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. On November 8, 2016, this levy was renewed for an additional four years.

NOTE 8 – CAPITAL ASSETS

	Balance 6/30/2018	Additions	Deletions	Balance 6/30/2019
Capital Assets:				
Depreciable Capital Assets:				
Furniture, Equipment, and Computers	$ 8,902	$ 8,000	$ -	$ 16,902
Total Depreciable Capital Assets	8,902	8,000	-	16,902
Less Accumulated Depreciation:				
Furniture, Equipment, and Computers	(1,335)	(1,788)	-	(3,123)
Total Accumulated Depreciation	(1,335)	(1,788)	-	(3,123)
Total Capital Assets, Net	$ 7,567	$ 6,212	$ -	$ 13,779

NOTE 9 – 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 2019, the School contracted with Argonaut Insurance Co. 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)	72,251,300
Crime Coverage ($500 Deductible) Each Employee	1,000,000
Computer Coverage ($500 Deductible)	100,000
Employee Benefits Liability ($1,000 Deductible) Each Employee	1,000,000
Employee Benefits Liability ($1,000 Deductible) Aggregate	3,000,000
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

Settled claims have not exceeded this commercial coverage in the past three years and there has not been a significant reduction in coverage since the prior year. The School owns no property, but leases a facility located at 9401 Willard Avenue, Cleveland, OH 44102 (See Note 15).

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

Breakthrough Charter Schools (BCS) values the health and well-being of all of our teachers, leaders and support staff. The BCS Network contracts through an independent carrier to provide insurance to all active, full-time employees scheduled to work at least 30 hours per week. Employees may elect medical, dental, vision, and life insurance coverage for themselves and eligible dependents, including the employee's spouse and children, depending on their family needs.

NOTE 9 – RISK MANAGEMENT (Continued)

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

The School subsidizes between 52 – 75% of the Point of Service (PPO) $250/$500 deductible plan and subsidizes between 57 – 80% for the Health Savings Account (HSA) $3,000/$6,000 deductible plan. The School subsidizes 50 percent for 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.

NOTE 10 – 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, 2019.

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

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

NOTE 10 – CONTINGENCIES (Continued)

C. State Foundation Funding (Continued)

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. As of the date of this report, ODE has not performed an FTE Review on the School for fiscal year 2019.

As of the date of this report, all ODE adjustments have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2019 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

NOTE 11 – DEFINED BENEFIT PENSION PLAN

A. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

A. Net Pension Liability (Continued)

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable.*

B. Plan Description School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309.

SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources. Age and service requirements for retirement are as follows:

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

B. Plan Description School Employees Retirement System (SERS) (Continued)

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund).

For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.50 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund. The School's contractually required contribution to SERS was $22,612 for fiscal year 2019.

C. Plan Description State Teachers Retirement System (STRS)

Plan Description –School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing, multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Plan Description State Teachers Retirement System (STRS) (Continued)

STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12.0 of the 14.0 percent member rates goes to the DC Plan and the remaining 2.0 percent goes to the DB plan. Member contributions to the DC plan are allocated among investment choices by the member, and contributions to the DB plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account.

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Plan Description State Teachers Retirement System (STRS) (Continued)

STRS has therefore included all three plan options in the GASB 68 schedules of employer allocation and pension amounts by employer.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 percent of their annual covered salary. The School Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School's contractually required contributions to STRS was $213,461 for fiscal year 2019.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.00353660%	0.00449538%	
Proportion of the Net Pension Liability Current Measurement Date	0.00395160%	0.00866827%	
Change in Proportionate Share	0.0004150%	0.00417289%	
Proportionate Share of the Net Pension Liability	$226,314	$1,905,958	$ 2,132,272
Pension Expense	$84,181	$596,677	$680,858

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$12,412	$43,996	$56,408
Changes of assumptions	5,111	337,771	342,882
Changes in proportion and differences between School contributions and proportionate share of contributions	115,345	1,416,420	1,531,765
School contributions subsequent to the measurement date	22,612	213,461	236,073
Total Deferred Outflows of Resources	$155,480	$2,011,648	$2,167,128
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$12,447	$12,447
Net difference between projected and actual earnings on pension plan investments	6,271	115,574	121,845
Total Deferred Inflows of Resources	$6,271	$128,021	$134,292

$236,073 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	$83,383	$580,741	$664,124
2021	52,565	527,181	579,746
2022	(7,427)	431,591	424,164
2023	(1,924)	130,653	128,729
Total	$126,597	$1,670,166	$1,796,763

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

E. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

The mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates is used to evaluate allowances to be paid. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

E. Actuarial Assumptions - SERS (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
International Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Stratagies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

E. Actuarial Assumptions - SERS (Continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$318,782	$226,314	$148,788

F. Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation:

Inflation	2.50 percent
Payroll increases	3.00 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized on the next page:

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

F. Actuarial Assumptions – STRS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

***** 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

F. Actuarial Assumptions – STRS (Continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	$2,783,401	$1,905,958	$1,163,322

NOTE 12 – DEFINED BENEFIT OPEB PLANS

A. Net OPEB Liability/Asset

The net OPEB liability and net OPEB asset reported on the statement of net position represents a liability or asset to employees for OPEB. OPEB is a component of exchange transactions-— between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability and net OPEB asset represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability and net OPEB asset calculations are dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

A. Net OPEB Liability/Asset (Continued)

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability and net OPEB asset. Resulting adjustments to the net OPEB liability and net OPEB asset would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable*.

B. Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage.

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute.

The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources. Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan.

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

B. Plan Description - School Employees Retirement System (SERS) (Continued)

The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School’s surcharge obligation was $3,183.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School’s contractually required contribution to SERS was $4,020 for fiscal year 2019. Of this amount $3,183 is reported as an intergovernmental payable.

C. Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

C. Plan Description - State Teachers Retirement System (STRS) (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly 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. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

D. OPEB Liabilities, OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and net OPEB asset were measured as of June 30, 2018, and the total OPEB liability and asset used to calculate the net OPEB liability and net OPEB asset were determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability and net OPEB asset were based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.00348960%	0.00449538%	
Proportion of the Net OPEB Liability Current Measurement Date	0.00404340%	0.00866827%	
Change in Proportionate Share	0.00055380%	0.00417289%	
Proportionate Share of the Net OPEB Liability	$112,174	($139,291)	($27,117)
OPEB Expense	$33,130	($242,989)	($209,859)

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

D. OPEB Liabilities, OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 1,831	$ 16,269	$ 18,100
Changes in proportionate Share and difference between School contributions and proportionate share of contributions	60,715	320,426	381,141
School contributions subsequent to the measurement date	4,020	-	4,020
Total Deferred Outflows of Resources	66,566	336,695	403,261
Deferred Inflows of Resources			
Differences between expected and actual experience	$ -	$ 8,115	$ 8,115
Changes of assumptions	10,078	189,793	199,871
Net difference between projected and actual earnings on OPEB plan investments	168	15,913	16,081
Total Deferred Inflows of Resources	$10,246	$213,821	$224,067

$4,020 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	$24,970	$23,758	$48,728
2021	19,517	23,758	43,275
2022	2,249	23,758	26,007
2023	2,317	27,373	29,690
2024	2,307	28,641	30,948
Thereafter	940	(4,414)	(3,474)
Total	$52,300	$122,874	$175,174

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School's proportionate share of the net OPEB liability	$136,115	$112,174	$93,218

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
School's proportionate share of the net OPEB liability	$ 90,505	$ 112,174	$ 140,870

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation is presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	
Payroll Increases	3 percent	
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	
Discount Rate of Return	7.45 percent	
Health Care Cost Trends	Initial	Ultimate
Medical		
Pre-Medicare	6.00 percent	4.00 percent
Medicare	5.00 percent	4.00 percent
Prescription Drug		
Pre-Medicare	8.00 percent	
Medicare	-5.23 percent	4.00 percent

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – STRS (Continued)

Benefit Term Changes Since the Prior Measurement Date The subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018.

NOTE 12 – DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – STRS (Continued)

Sensitivity of the School's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net OPEB asset	$119,385	$139,291	$156,020

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB asset	$155,075	$139,291	$123,259

NOTE 13 – LONG TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2019 were as follows:

	Balance as of 6/30/2018	Additons	Deletions	Balance as of 6/30/2019
Net Pension Liability:				
STRS	$ 1,067,887	$ 838,071	$ -	$ 1,905,958
SERS	211,304	15,010	-	226,314
Total Net Pension Liability	1,279,191	853,081	-	2,132,272
Net OPEB Liability:				
STRS	175,393	-	(175,393)	-
SERS	93,652	18,522	-	112,174
Total Net OPEB Liability	269,045	18,522	(175,393)	112,174
Total Long-Term Obligations	$ 1,548,236	$ 871,603	$ (175,393)	$ 2,244,446

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Notes 11 and 12.

NOTE 14 – PURCHASED SERVICES

For the fiscal year ended June 30, 2019, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	$ 711,857
Property Services	378,169
Travel Mileage/Meeting	8,906
Communications	3,508
Utilities	46,305
Contracted Craft or Trade Service	194,315
Tuition	14,160
Pupil Transportation	36,382
Total	$ 1,393,602

NOTE 15 – OPERATING LEASES

The School entered into a lease agreement Friends of Breakthrough Schools for the property located at 2220 west 93rd Street, Cleveland, OH 44102 (later changed to 9401 Willard Avenue, Cleveland, Ohio 44102). The lease is for a twelve-year period commencing on July 1, 2016 through June 30, 2028 as it may be extended from time to time by mutual agreement of parties. Base rent for the lease is $11.00 per square foot for all space occupied by the School and $5.50 per square foot for all common spaces. Rent related expenses under the lease were $453,294 for the fiscal year ended June 30, 2019.

NOTE 16 – 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 17 – FRIENDS OF BREAKTHROUGH DONATIONS

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 $484,104 for operating expenses. A total of $330,000 was disbursed to the School during fiscal year 2019. $154,104 is being recorded as a pledge receivable as of June 30, 2019, and will be paid during the subsequent year.

NOTE 18 – OHIO FACILITIES COMMUNITY CLASSROOM GRANT (OFCC)

During fiscal year 2017, the Governing Board of Village Preparatory School Willard (School) was awarded a grant by the State of Ohio, acting by and through the Ohio Schools Facilities Commission (Commission) to provide funds to high performing Ohio community schools for eligible building improvements previously made and to renovate additional space to their building to accommodate additional students. The Governing Board of the School negotiated an Agreement with the Friends of Breakthrough to assume the responsibility of managing the grant project and to provide the matching funds required by the Commission. The Commission subsequently provided a grant of $4,604,390 to the School for capital improvements according to the Commission requirements, including the requirement for the Friends of Breakthrough to provide local matching funds. The total cost of the project was $9,208,780 with matching funds of $4,604,390 from the Friends of Breakthrough, of which $2,171,216 was passed through in fiscal year 2017, $2,112,742 in fiscal year 2018 and the remaining amount of $320,432 in fiscal year 2019.

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2019	2018
School's Proportion of the Net Pension Liability	0.0039516%	0.0035366%
School's Proportionate Share of the Net Pension Liability	$ 226,314	$ 211,304
School's Covered Payroll	$ 138,237	$ 108,493
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	163.71%	194.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2019	2018
School's Proportion of the Net Pension Liability	0.00866827%	0.00449538%
School's Proportionate Share of the Net Pension Liability	$ 1,905,958	$ 1,067,887
School's Covered Payroll	$ 985,436	$ 539,736
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.41%	197.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.29%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions - Pension
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

	2019	2018	2017
Contractually Required Contribution	$ 22,612	$ 18,662	$ 15,189
Contributions in Relation to the Contractually Required Contribution	(22,612)	(18,662)	(15,189)
Contribution Deficiency (Excess)	-	-	-
School Covered Payroll	$ 167,496	$ 138,237	$ 108,493
Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions - Pension
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

	2019	2018	2017
Contractually Required Contribution	$ 213,461	$ 137,961	$ 75,563
Contributions in Relation to the Contractually Required Contribution	(213,461)	(137,961)	(75,563)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School Covered Payroll	$ 1,524,721	$ 985,436	$ 539,736
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School's Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2019	2018
School's Proportion of the Net OPEB Liability	0.0040434%	0.0034896%
School's Proportionate Share of the Net OPEB Liability	$ 112,174	$ 93,652
School's Covered Payroll	$ 138,237	$ 108,493
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	81.15%	86.32%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School's Proportionate Share of the Net OPEB Liability/Asset
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2019	2018
School's Proportion of the Net OPEB Liability/Asset	0.00866827%	0.00449538%
School's Proportionate Share of the Net OPEB Liability/(Asset)	$ (139,291)	$ 175,393
School's Covered Payroll	$ 985,436	$ 539,736
School's Proportionate Share of the Net OPEB Liability/Asset as a Percentage of its Covered Payroll	-14.13%	32.50%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	176.00%	47.10%

(1) Information prior to 2018 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School's measurement date which is the prior fiscal period end.

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions - OPEB
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

	2019	2018	2017
Contractually Required Contribution (2)	$ 4,020	$ 3,029	$ 2,269
Contributions in Relation to the Contractually Required Contribution	(4,020)	(3,029)	(2,269)
Contribution Deficiency (Excess)	-	-	-
School Covered Payroll	$ 167,496	$ 138,237	$ 108,493
OPEB Contributions as a Percentage of Covered Payroll (2)	2.40%	2.19%	2.09%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

BREAKTHROUGH CHARTER SCHOOLS:
VILLAGE PREPARATORY SCHOOL – WILLARD
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions - OPEB
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

	2019	2018	2017
Contractually Required Contribution	$ -	$ -	$ -
Contributions in Relation to the Contractually Required Contribution	-	-	-
Contribution Deficiency (Excess)	$ -	$ -	$ -
School Covered Payroll	$ 1,524,721	$ 985,436	$ 539,736
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

Net Pension Liability

Changes of benefit terms- SERS

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017 and 2019.

The following changes were made to the benefit terms in 2018 as identified: The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in assumptions- SERS

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016 and 2018-2019. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement (h) change in discount rate from 7.75% to 7.5%.

Changes in benefit terms – STRS

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2019.

Changes in assumptions – STRS

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017 and 2019. For fiscal year 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) inflation assumption lowered from 2.75% to 2.50%, (b) investment return assumption lowered from 7.75% to 7.45%, (c) total salary increases rates lowered by decreasing the merit component of the individual salary increases, as well as by 0.25% due to lower inflation, (d) payroll growth assumption lowered to 3.00%,

(e) updated the healthy and disable mortality assumption to the "RP-2014" mortality tables with generational improvement scale MP-2016, (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 and 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent
Medicare Trend Assumption	
Medicare	
Fiscal year 2019	5.375 percent decreasing to 4.75 percent
Fiscal year 2018	5.50 percent decreasing to 5.00 percent
Pre - Medicare	
Fiscal year 2019	7.25 percent decreasing to 4.75 percent
Fiscal year 2018	7.50 percent decreasing to 5.00 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent and in fiscal year 2019 the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent, based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified.

The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes in Benefit Terms – STRS

Also, for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service, and increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

December 26, 2019

To the Board of Trustees
Breakthrough Charter Schools:
Village Preparatory School - Willard
9401 Willard Avenue
Cleveland, Ohio 44102

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 – Willard, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 26, 2019.

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.

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.

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

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.*

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.

Rea & Associates, Inc.

Medina, Ohio

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OHIO AUDITOR OF STATE
KEITH FABER

VILLAGE PREPARATORY SCHOOL - WILLARD

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
FEBRUARY, 11 2020