



**OLD BROOKLYN MONTESSORI SCHOOL  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



**Auditor of State  
Betty Montgomery**



**OLD BROOKLYN MONTESSORI SCHOOL  
CUYAHOGA COUNTY  
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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Trustees  
Old Brooklyn Montessori School  
Cuyahoga County  
4430 State Road  
Cleveland, Ohio 44109

We have audited the accompanying financial statements of the Old Brooklyn Montessori School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Old Brooklyn Montessori School, Cuyahoga County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the Note XV to the financial statements, the School restated the June 30, 2001 fixed asset balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

March 14, 2003

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**Old Brooklyn Montessori School**  
**Cuyahoga County**  
**Balance Sheet**  
**As of June 30, 2002**

**Assets:**

**Current Assets:**

Cash	\$220,569
Accounts Receivable	991
	<hr/>
<i>Total Current Assets</i>	221,560

**Non-Current Assets:**

Fixed Assets (Net of Accumulated Depreciation)	105,215
	<hr/>
<i>Total Assets</i>	<u><u>\$326,775</u></u>

**Liabilities and Equity:**

**Current Liabilities:**

Accounts Payable	\$11,737
Due to Other Governments	23,092
Accrued Wages and Benefits	1,130
Deferred Revenue	15,955
	<hr/>
<i>Total Current Liabilities</i>	51,914

**Equity:**

Retained Earnings	274,861
	<hr/>
<i>Total Liabilities and Equity</i>	<u><u>\$326,775</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**Old Brooklyn Montessori School  
Cuyahoga County  
Statement of Revenues, Expenses and  
Changes in Retained Earnings  
For the Year Ended June 30, 2002**

**Operating Revenues:**

Foundation and DPIA Revenues	\$946,924
Other Operating Revenues	<u>36,674</u>
<i>Total Operating Revenues</i>	<u>983,598</u>

**Operating Expenses:**

Salaries	518,411
Fringe Benefits	115,854
Purchased Services	330,832
Materials and Supplies	134,451
Depreciation	16,826
Other Operating Expenses	<u>3,538</u>
<i>Total Operating Expenses</i>	<u>1,119,912</u>
Operating Loss	<u>(136,314)</u>

**Non-Operating Revenues:**

Interest Earnings	4,114
Federal and State Grants	202,859
Private Grants and Contributions	<u>1,366</u>
<i>Total Non-Operating Revenues</i>	<u>208,339</u>
Net Income	<u>72,025</u>
Retained Earnings at Beginning of the Year as Restated (See Note XV)	<u>202,836</u>
Retained Earnings at End of Year	<u><u>\$274,861</u></u>

The accompanying notes to the financial statements are an integral part of this statement.



**Old Brooklyn Montessori School  
Cuyahoga County  
Statement of Cash Flows  
For the Year Ended June 30, 2002**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$952,162
Cash Payments to Suppliers for Goods and Services	(583,221)
Cash Payments to Employees for Services	(541,587)
Other Operating Revenues	<u>44,609</u>
 Net Cash Used for Operating Activities	 <u>(128,037)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants	<u>204,225</u>
 Net Cash Provided by Noncapital Financing Activities	 <u>204,225</u>

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

Payments for Capital Acquisitions	<u>(103,941)</u>
 Net Cash Used for Capital and Related Financing Activities	 <u>(103,941)</u>

**Cash Flows from Investing Activities:**

Interest Earnings	<u>4,114</u>
 Net Cash Provided by Investing Activities	 <u>4,114</u>
 Net Decrease in Cash	 (23,639)
 Cash at Beginning of the Year	 <u>244,208</u>
 Cash at End of the Year	 <u><u>\$220,569</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**Old Brooklyn Montessori School**  
**Cuyahoga County**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2002**  
**(Continued)**

**Reconciliation of Operating Loss to Net  
Cash Used for Operating Activities:**

Operating Loss	<u>(\$136,314)</u>
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation	16,826
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	5,930
(Decrease) in Accounts Payable	(12,430)
Increase in Due Other Governments	12,752
(Decrease) in Accrued Wages and Benefits	(22,046)
Increase in Deferred Revenue	<u>7,245</u>
Total Adjustments	<u>8,277</u>
Net Cash Used for Operating Activities	<u><u>(\$128,037)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**I. Description of the School and Reporting Entity**

**Old Brooklyn Montessori School (OBMS)** is a nonprofit corporation established February 3, 1997 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect OBMS' tax-exempt status. OBMS, which is part of Ohio's education program, is independent of any school district. OBMS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of OBMS.

On April 9, 1998, OBMS submitted a proposal to the Ohio Department of Education to open a community school in the fall of 1998. The Ohio Department of Education approved the proposal and entered into a contract with OBMS which provided for the commencement of operations at the beginning of the 1998-99 school year.

OBMS operates under a three-member Board of Trustees. The Board 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 qualification of teachers. The Board of Trustees controls OBMS' two instructional facilities staffed by six uncertified and nine certificated full time teaching personnel who provide services to 165 students.

OBMS entered into an agreement with Constellation Community Schools (CCS) to provide management services for the fiscal year. See Note XII for further discussion of this management agreement. Two board members of OBMS are also board members of CCS, Parma Community School, Elyria Community School, Lorain Community School and Westpark Community School.

**II. Summary of Significant Accounting Policies**

The financial statements of OBMS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. OBMS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of OBMS' accounting policies are described below.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**II. Summary of Significant Accounting Policies (Continued)**

**1. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**3. Cash**

All monies received by OBMS are deposited in demand deposit accounts.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**II. Summary of Significant Accounting Policies (Continued)**

**4. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the school's contract with its sponsor. The contract between OBMS and its sponsor does not prescribe a budgetary process requirement.

**5. Accounts Receivable**

Moneys due OBMS for the year ended June 30, 2002 are recorded as accounts receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

**6. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$500 or more are capitalized.

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.

Depreciation of computers, office equipment and furniture and equipment is computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Estimated useful lives are as follows:

<b>Fixed Asset Classification</b>	<b>Years</b>
Computers and Office Equipment	3
Furniture and Equipment	10

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**II. Summary of Significant Accounting Policies (Continued)**

**7. Intergovernmental Revenues**

OBMS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program (“DPIA”). Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and the expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

OBMS participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program OBMS received \$150,000 during the year and it is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$1,149,783.

**8. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar, therefore, OBMS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one day per month and cannot be carried into the subsequent year. No accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**II. Summary of Significant Accounting Policies (Continued)**

**9. Use of Estimates**

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

**10. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for OBMS consists of material and fees received in the current year which pertain to the next school year.

**III. Deposits**

At fiscal year end June 30, 2002, the carrying amount of OBMS' deposits totaled \$220,569 and its bank balance was \$224,945. Of the bank balance \$100,000 was covered by the Federal Depository Insurance Corporation and \$124,945 was covered by Firststar Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that Firststar Bank N.A. pledge collateral for the deposits of the Old Brooklyn Montessori School in a pool of securities under Section 135.181 of the Ohio Revised Code.

**IV. Fixed Assets**

A summary of fixed assets at June 30, 2002 follows:

Unamortized Mortgage Costs	\$ 12,203
Computers and Office Equipment	28,491
Furniture and Equipment	93,369
Less Accumulated Depreciation	<u>(28,848)</u>
Net Fixed Assets	<u>\$105,215</u>

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**V. Purchased Services**

Purchased Services include the following:

Occupancy Costs	\$131,169
Pupil Support Services	16,820
Instruction	19,237
Administrative	132,455
Staff Development	<u>31,151</u>
Total	<u>\$330,832</u>

**VI. Leases**

OBMS leases its facilities from St. Lukes United Church of Christ under a one-year lease agreement. Lease payments made during the year ended June 30, 2002 totaled \$23,450. The lease provides OBMS with an option to renew for one year. The rent payments on the renewal shall be negotiated at the time of renewal.

On June 8, 2001, a lease agreement was entered into for a building located at 3326 Broadview Road, Cleveland. This lease commenced on July 1, 2001 and continues for a two year period ending June 30, 2003. The lease provides for annual lease payments of \$48,000. The lease provides OBMS with an option to renew for one additional five year period. The rent payments on the renewal shall be negotiated at the time of renewal.

As of July 1, 2002, OBMS moved its operations to facilities discussed in Note XIV.

Effective July 1, 2002, Constellation Community Schools assumed the remainder of the lease for a building located at 3326 Broadview Road, Cleveland.



**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**VII. Risk Management**

**1. Property and Liability Insurance**

OBMS 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 fiscal year 2002, OBMS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Directors and Officers, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

**2. Workers' Compensation**

OBMS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2002, there have been no claims filed by OBMS employees with the Ohio Worker's Compensation System.

**3. Employee Medical, Dental, and Vision Benefits**

OBMS provides medical insurance benefits to all full time employees. Up to \$3,500 in premiums are paid by OBMS for each employee that elects to have coverage. Those employees whose coverage exceeds the \$3,500 limit reimburse OBMS through payroll deductions. OBMS paid \$36,531 for medical insurance benefits for the fiscal year.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**VIII. Defined Benefit Pension Plans**

**1. School Employees Retirement System**

OBMS contributes to the School Employees Retirement System of Ohio (“SERS”), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. 4th St., Columbus, Ohio 43215-3746 or by calling (614)222.5853.

Plan members are required to contribute 9 percent of their annual covered salary and OBMS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of OBMS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. OBMS’ required contribution to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$1,323, \$1,508 and \$1,741. For fiscal year 2002, OBMS contributions totaling \$282 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**VIII. Defined Benefit Pension Plans (Continued)**

**2. State Teachers Retirement System**

OBMS contributes to the State Teachers Retirement System of Ohio (“STRS”), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salary and OBMS is required to contribute 14 percent, 9.5 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. OBMS’ required contribution to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$46,779, \$34,317, and \$25,229. For fiscal year 2002, OBMS contributions totaling \$4,711 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

**IX. Post-Employment Benefits**

OBMS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**IX. Post-Employment Benefits (Continued)**

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For OBMS, this amount equaled \$22,159 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For OBMS, the amount to fund health care benefits, including surcharge, equaled \$2,069 for fiscal 2002.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million dollars. At June 30, 2001, SERS had net assets available for health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— **A Community School** —  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**X. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". OBMS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**XI. Contingencies**

**1. Grants**

OBMS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs 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 of OBMS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of OBMS at June 30, 2002.

**2. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on OBMS is not presently determinable.

**3. Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Based on ODE's review there are no adjustments to the state funding received during fiscal year 2002.

**OLD BROOKLYN MONTESSORI SCHOOL**  
— A Community School —  
Cuyahoga County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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**XII. Management Agreement**

OBMS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2002. The agreement was for a period of one year, effective July 1, 2001 with a cost of \$500 per enrolled student. The total amount due from OBMS for the fiscal year ending June 30, 2002 was \$82,500 and was fully paid as of June 30, 2002.

**XIII. Related Parties**

Two members of the OBMS Board of Trustees are also members of Constellation Community Schools (CCS), Parma Community School, Elyria Community School, Lorain Community School and Westpark Community School governing boards. OBMS contracts with CCS for legal, financial and business management services.

One member of the OBMS Board of Trustees has been hired by Parma Community School (PCS) to provide Treasurer services for all of the schools and has received compensation totaling \$4,541 for the fiscal year ended June 30, 2002. Each school has been billed by PCS for their portion of the costs for these services, including employer taxes. The total amount due PCS from OBMS for the fiscal year ending June 30, 2002 is \$1,158, all of which is included in Accounts Payable as of June 30, 2002.

**XIV. Subsequent Events**

On March 19, 2002, OBMS executed a purchase agreement to purchase the former Dawning School Building located in Cleveland for \$950,000. In November 2002, OBMS was approved for a mortgage loan with Firststar Bank and a loan guarantee from the Ohio School Facilities Commission.

**OLD BROOKLYN MONTESSORI SCHOOL**  
**— A Community School —**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**XV. Restatement of Fixed Asset Balances**

During the fiscal year the OBMS Board of Trustees passed a resolution to change the capitalization level to only include assets whose useful life exceed one year and whose cost is at least \$500 for non-leasehold improvement or building assets. Previously, the capitalization threshold for assets had been set to include any asset whose useful life exceeded one year regardless of the cost of the item.

This restatement of the fixed assets had the following effects on fixed assets and retained earnings:

	<u>June 30, 2001</u>	<u>Restatement</u>	<u>Restated June 30, 2001</u>
<u>Fixed Assets:</u>			
Fixed Assets	\$240,480	\$210,358	\$30,122
Accumulated Depreciation	<u>(74,323)</u>	<u>(62,301)</u>	<u>(12,022)</u>
Net Fixed Assets	<u>\$166,157</u>	<u>\$148,057</u>	<u>\$18,100</u>
 <u>Retained Earnings:</u>	 <u>\$380,893</u>	 <u>(\$148,057)</u>	 <u>\$202,836</u>

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Trustees  
Old Brooklyn Montessori School  
Cuyahoga County  
4430 State Road  
Cleveland, Ohio 44109

We have audited the financial statements of the Old Brooklyn Montessori School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 14, 2003, wherein we noted the School restated the June 30, 2001 fixed asset balances. 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.

#### Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 14, 2003.

Old Brooklyn Montessori School  
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This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

March 14, 2003



**Auditor of State  
Betty Montgomery**

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**OLD BROOKLYN MONTESSORI SCHOOL**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 8, 2003**