



**OLD BROOKLYN MONTESSORI SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**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 Community School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2004, 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 Community School, Cuyahoga County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note XV, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial State Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

December 17, 2004

OLD BROOKLYN MONTESSORI SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Old Brooklyn Montessori School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2004 include the following:

- In total, net assets increased \$388,608, which represents a 97.8% increase from 2003. This increase is due primarily to an increased enrollment of 36 students resulting in increased state funding and federal subsidies. Also, unexpended year-end balances on two private grants from the Cleveland Foundation and the Walton Family Foundation total \$162,980.
- Total assets increased \$314,873, which represents a 23.2% increase from 2003. This increase is due to an increase in the year end cash balance of \$157,368 and an increase in capital assets of \$160,247. The cash balance includes unexpended grant funds from two private foundations. The increase in capital assets is due primarily to building improvements which include boiler renovations, bathroom renovations and window replacements.
- Liabilities decreased \$73,735, which represents a 7.7% decrease from 2003. Mortgages payable decreased by \$71,817 accounting for nearly all of the decrease.
- Operating revenues increased by \$342,738, which represents a 25.0% increase from 2003. The majority of this increase (\$314,326) is due to increased enrollment resulting in increased state funding. Additional increases are the result of rental income, materials fees and student activities.
- Operating expenses increased by \$372,931, which represents a 26.8% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$296,139, which represents a 207.2% increase from 2003. This increase is due to the awarding of the two private grants mentioned previously and additional school fundraising.

OLD BROOKLYN MONTESSORI SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Using this Financial Report

This report consists of three parts, the Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2004. This statement includes all of the assets, liabilities and net asset balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Assets		
Cash	\$ 415,752	\$ 258,384
Other Current Assets	5,547	8,289
Capital Assets	<u>1,251,455</u>	<u>1,091,208</u>
Total Assets	<u>1,672,754</u>	<u>1,357,881</u>
Liabilities		
Current Liabilities	58,516	60,434
Long-Term Liabilities	<u>828,107</u>	<u>899,924</u>
Total Liabilities	<u>886,623</u>	<u>960,358</u>
Net Assets		
Net Assets	<u>786,131</u>	<u>397,523</u>
Total Liabilities and Net Assets	<u>\$1,672,754</u>	<u>\$1,357,881</u>

OLD BROOKLYN MONTESSORI SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Net assets increased \$388,608, due primarily to increased enrollment and unexpended private grants. For assets, cash increased \$157,368; due from other governments decreased \$1,350; accounts receivable decreased \$1,232 prepaid interest on the mortgages decreased by \$160 and capital assets increased \$160,247 from 2003. For liabilities, accounts payable increased \$718; due to other governments decreased \$50; accrued wages and benefits increased \$1,012; interest payable decreased \$38; deferred revenues decreased \$3,560 and mortgage notes payable decreased \$71,817 from 2003.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net assets reports operating and non-operating activities for the fiscal year ended June 30, 2004.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Revenues		
Foundation and DPIA Revenues	\$1,627,614	\$1,313,288
Other Operating Revenues	87,746	59,334
Interest	2,942	3,456
Federal and State Grants	139,964	139,037
Private Grants and Contributions	<u>296,126</u>	<u>400</u>
Total Revenues	<u>2,154,392</u>	<u>1,515,515</u>
Expenses		
Salaries	820,710	681,951
Fringe Benefits	205,083	168,190
Purchased Services	409,933	376,914
Materials and Supplies	127,834	49,304
Capital Outlay	12,989	15,470
Depreciation	48,896	31,739
Other Operating Expenses	<u>140,339</u>	<u>69,285</u>
Total Expenses	<u>1,765,784</u>	<u>1,392,853</u>
Net Income	388,608	122,662
Net Assets at Beginning of Year	<u>397,523</u>	<u>274,861</u>
Net Assets at End of Year	<u>\$ 786,131</u>	<u>\$ 397,523</u>

OLD BROOKLYN MONTESSORI SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Net assets increased in both fiscal years ending June 30, 2003 and 2004. This is due in part to increasing revenues due to increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

The most significant increases in revenues from 2003 to 2004 are Foundation and DPIA (increased \$314,326) due to enrollment increases; Other Operating Revenues (increased \$28,412) due mainly to rentals and student activities and Private Grants and Contributions (increased \$295,726) due primarily to grants awarded by the Cleveland Foundation and the Walton Family Foundation.

Most areas of expenses increased from 2003 to 2004. Salaries and Fringe Benefits increased (\$175,652) due to additional staffing and annual increases; Purchased services increased (\$33,019) due to additional instructional services, student support services and administrative services partially offset by a reduction in facilities services (the School purchased the building in which it is located during fiscal year 2003 to stabilize the facilities costs). Materials and Supplies increased (\$78,530) due to significant text book and classroom supplies purchases for additional classes and for facilities supplies. Depreciation increased (\$17,157) as a direct result of the building purchase and building improvements. Other Operating Expenses increased (\$71,054) due to mortgage debt service and insurance premiums.

Capital Assets

As of June 30, 2004 the School had capital assets of \$1,251,455 invested in computers and office equipment, furniture and equipment, building, building improvements and mortgage loan fees. This is a \$160,247 increase over June 30, 2003.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2003 and 2004.

	<u>2004</u>	<u>2003</u>
Capital Assets (net of depreciation)		
Computers and Office Equipment	\$ 12,627	\$ 11,354
Furniture and Equipment	53,963	50,702
Building	971,710	997,004
Building Improvements	208,277	26,896
Mortgage Loan Fees	<u>4,878</u>	<u>5,252</u>
Net Capital Assets	<u>\$1,251,455</u>	<u>\$1,091,208</u>

For more information on capital assets see the Notes to the Financial Statements.

OLD BROOKLYN MONTESSORI SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt Service

On November 12, 2002 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by US Bank National Association with a face value of \$707,500 for a term of fifteen years and an interest rate of 5.60% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to \$600,000. The second mortgage is held by G & W Properties with a face value of \$232,500 for a term of five years and an interest rate of 9.50% per annum. The outstanding principal balances as of June 30, 2004 are \$661,255 and \$166,853 respectively.

For more information on debt service see the Notes to the Financial Statements.

Current Financial Issues

Old Brooklyn Montessori School opened in the fall of 1998 as one of the first community schools in the state of Ohio. In its sixth year of operations it has grown from 30 students, two teaching staff members and expenses of \$181,928 to a total of 253 students, 22 teaching staff members and expenses of \$1,765,784. During this time we have also been able to purchase our own educational facility. As the School matures to an enrollment of nearly 360 students we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to treasurer@constellationschools.com.

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**Old Brooklyn Montessori School
Cuyahoga County
Statement of Net Assets
As of June 30, 2004**

Assets:

Current Assets:

Cash	\$415,752
Due from Other Governments - DPIA	4,873
Prepaid Interest	<u>674</u>
<i>Total Current Assets</i>	421,299

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>1,251,455</u>
<i>Total Assets</i>	<u><u>\$1,672,754</u></u>

Liabilities:

Current Liabilities:

Accounts Payable	\$29,163
Due Other Governments	12,690
Accrued Wages and Benefits	3,012
Interest Payable	3,086
Deferred Revenue	<u>10,565</u>
<i>Total Current Liabilities</i>	<u>58,516</u>

Long Term Liabilities:

Mortgage Notes Payable	<u>828,107</u>
<i>Total Liabilities</i>	<u>886,623</u>

Net Assets:

Investment in capital assets, net of related debt	423,348
Unrestricted	<u>362,783</u>
<i>Total Net Assets</i>	<u><u>\$786,131</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 Net Assets
For the Fiscal Year Ended June 30, 2004**

Operating Revenues:

Foundation and DPIA Revenues	\$1,627,614
Other Operating Revenues	<u>87,746</u>
<i>Total Operating Revenues</i>	<u>1,715,360</u>

Operating Expenses:

Salaries	820,710
Fringe Benefits	205,083
Purchased Services	409,933
Materials and Supplies	127,834
Capital Outlay	12,989
Depreciation	48,896
Other Operating Expenses	<u>140,339</u>
<i>Total Operating Expenses</i>	<u>1,765,784</u>
Operating Loss	<u>(50,424)</u>

Non-Operating Revenues:

Interest	2,942
Federal and State Grants	139,964
Private Grants and Contributions	<u>296,126</u>
<i>Total Non-Operating Revenues</i>	<u>439,032</u>
Net Income	<u>388,608</u>
Net Assets at Beginning of the Year	<u>397,523</u>
Net Assets at End of Year	<u><u>\$786,131</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 Fiscal Year Ended June 30, 2004**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,622,741
Cash Payments to Suppliers for Goods and Services	(895,472)
Cash Payments to Employees for Services	(818,382)
Other Operating Revenues	<u>84,186</u>
Net Cash Used for Operating Activities	<u>(6,927)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	296,126
Federal and State Grants Received	<u>146,187</u>
Net Cash Provided by Noncapital Financing Activities	<u>442,313</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(209,143)
Mortgage Loan Payments	<u>(71,817)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(280,960)</u>

Cash Flows from Investing Activities:

Interest	<u>2,942</u>
Net Cash Provided by Investing Activities	<u>2,942</u>

Net Increase in Cash	157,368
Cash at Beginning of Year	<u>258,384</u>
Cash at End of Year	<u><u>\$415,752</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 Fiscal Year Ended June 30, 2004
(Continued)

Reconciliation of Operating Loss to Net Cash Provided for Operating Activities:

Operating Loss	(\$50,424)
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Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:

Depreciation	48,896
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments - DPIA	(4,873)
Decrease in Accounts Receivable	1,232
Decrease in Prepaid Interest	160
Increase in Accounts Payable	718
(Decrease) in Due Other Governments	(50)
Increase in Accrued Wages and Benefits	1,012
(Decrease) in Interest Payable	(38)
(Decrease) in Deferred Revenue	(3,560)
 Total Adjustments	 43,497
 Net Cash Used for Operating Activities	 (\$6,927)

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 BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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 five-year contract with OBMS which provided for the commencement of operations at the beginning of the 1998-99 school year. The contract was renewed in 2003 for a two-year period commencing July 1, 2003. On October 16, 2003 OBMS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services.

OBMS operates under a five-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' instructional facility staffed by eight uncertified and fourteen certificated full time teaching personnel who provide services to 253 students.

OBMS entered into an agreement with Constellation Community Schools (CCS) to provide management services for the fiscal year. See Note XIII for further discussion of this management agreement. The board members of OBMS are also board members of CCS, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students.

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —
Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

I. Description of the School and Reporting Entity (Continued)

For 2004, OBMS has implemented GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments,” GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments: Omnibus,” and GASB Statement No. 38, “Certain Financial Statement Note Disclosures.”

GASB Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces the Statement of Revenues, Expenses, and Changes in Retained Earnings. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required contents of the MD & A. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The impact of implementing GASB Statements Nos. 34, 37, and 38 resulted in changes in the presentation of the financial statements and providing additional information in the notes to the basic financial statements.

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.

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

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 Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The OBMS's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the OBMS receives value without directly giving equal value in return, such as grants and entitlements, are 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 OBMS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the OBMS on a reimbursement basis. Expenses are recognized at the time 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

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. Due from Other Governments

Moneys due OBMS for the year ended June 30, 2004 are recorded as Due from Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

6. Capital Assets, Mortgage Fees and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital 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.

Mortgage Fees have been capitalized at cost and are being amortized over the term of the mortgage for which they have been incurred.

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

Capital Asset Classification	Years
Computers and Office Equipment	3
Furniture and Equipment	10
Building	40
Building Improvements	10
Mortgage Loan Fees	5 or 15

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

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.

Amounts awarded under the above named programs for the 2004 school year totaled \$1,767,578.

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 and one-quarter day per month and can be accrued up to a maximum of one hundred twenty days. OBMS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

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.

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

III. Deposits

At fiscal year end June 30, 2004, the carrying amount of OBMS' deposits totaled \$415,752 and its bank balance was \$424,237. Of the bank balance \$255,306 was covered by the Federal Depository Insurance Corporation and \$168,931 was covered by US Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that US Bank 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. Capital Assets

A summary of capital assets at June 30, 2004 follows:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Capital Assets Being Depreciated:				
Building	\$1,017,229	\$0	\$0	\$1,017,229
Building Improvements	3,242	187,920	0	191,162
Computers & Office Equipment	27,543	8,277	0	35,820
Furniture, Equipment & Materials	103,781	12,946	0	116,727
Total Assets Being Depreciated	<u>1,151,795</u>	<u>209,143</u>	<u>0</u>	<u>1,360,938</u>
Less Accumulated Depreciation:				
Building	(14,973)	(25,668)	0	40,641
Building Improvements	(189)	(3,931)	0	4,120
Computers & Office Equipment	(18,038)	(4,812)	0	22,850
Furniture, Equipment & Materials	(27,387)	(14,485)	0	41,872
Total Accumulated Depreciation	<u>(60,587)</u>	<u>(48,896)</u>	<u>0</u>	<u>109,483</u>
Total Capital Assets, Net	<u>\$1,091,208</u>	<u>\$160,247</u>	<u>\$0</u>	<u>\$1,251,455</u>

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

V. Purchased Services

Purchased Services include the following:

Occupancy Costs	\$ 57,670
Pupil Support Services	41,362
Instruction	60,987
Administrative	202,216
Staff Development & Support	46,034
Extracurricular Activities	<u>1,664</u>
Total	<u>\$409,933</u>

VI. Dawning School Building Purchase

On July 1, 2002, OBMS moved its operations to the former Dawning School located at 4430 State Road, Cleveland, which it purchased on November 12, 2002. The purchase price of \$950,000, along with other purchase costs totaling \$61,759, have been capitalized and will be depreciated over a forty year period. All operations of the school are located at this site.

At the time of purchase there were two tenants in the building, West Side Ecumenical Ministry Head Start (WSEM) and Beacon Baptist Church. WSEM has a lease through September 30, 2004 with a monthly lease payment of \$1,315 and Beacon Baptist Church has a month to month lease with a monthly payment of \$400. OBMS collected rents totaling \$14,462 for WSEM and \$4,400 for Beacon Baptist Church during fiscal year 2004.

VII. Mortgage Notes Payable

On November 12, 2002, OBMS entered into two mortgage agreements relating to the purchase of the former Dawning School (see note VI).

A first mortgage note in the amount of \$707,500 is held by US Bank National Association. The note is for a term of fifteen years with an interest rate of 5.60 percent per annum. The Ohio School Facilities Commission has guaranteed the first mortgage up to \$600,000.

A second mortgage note in the amount of \$232,500 is held by G & W Properties and is subordinate to the first mortgage. The note is for a term five years with an interest rate of 9.50 percent per annum.

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

VII. Mortgage Notes Payable (continued)

During fiscal year 2004 principal was reduced by \$31,193 for US Bank National Association and \$40,623 for G & W Properties. Interest expense totaled \$38,591 for US Bank National Association and \$18,131 for G & W Properties. As of June 30, 2004 outstanding principal balances are \$661,255 for the first mortgage and \$166,853 for the second mortgage. Prepaid interest totaling \$674 for G & W Properties has been recorded as a current asset and interest payable totaling \$3,086 due US Bank National Association has been recorded as a current liability as of June 30, 2004.

Principal payments due on the mortgage notes are as follows:

Year	US Bank	G & W Properties
2005	33,128	40,771
2006	35,059	48,701
2007	37,102	53,535
2008	39,181	23,846
2009	41,548	-0-
After 2009	<u>475,237</u>	<u>-0-</u>
Total	\$661,255	\$166,853

VIII. 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 2004, 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 \$300,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

VIII. Risk Management (Continued)

2. Workers' Compensation

OBMS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2004, there have been no claims filed by OBMS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Life Benefits

OBMS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by OBMS for the fiscal year is \$70,237.

IX. 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. Also, OBMS is the account through which CCS makes their required contributions to SERS. 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, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 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 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

IX. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System (Continued)

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 for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$3,346, \$3,159 and \$1,323. For fiscal year 2004, OBMS contributions had a prepaid balance totaling \$2,553 at year end which has reduced the amount reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

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. Also, OBMS is the account through which CCS makes their required contributions to STRS. 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 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

IX. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and OBMS is required to contribute 14 percent, 13 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

OBMS' required contribution for pension obligations to the DB Plan to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$101,369, \$83,628 and \$46,779. For fiscal year 2004, OBMS contributions totaling \$1,305 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 BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

X. 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For OBMS, this amount equaled \$7,798 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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 4.91 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 2004, the minimum pay was established at \$25,400. For OBMS, the amount to fund health care benefits, including surcharge, equaled \$3,444 for fiscal 2004.

OLD BROOKLYN MONTESSORI SCHOOL

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Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

X. Post-Employment Benefits (Continued)

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, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million dollars. At June 30, 2003, SERS had net assets available for health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

XI. 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.

XII. 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, 2004.

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

XII. Contingencies (Continued)

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. As of the date of this report there are no adjustments to the state funding received during fiscal year 2004.

XIII. Sponsorship and Management Agreements

OBMS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by OBMS, from the State of Ohio. The total amount due from OBMS for the period November 2003 to June 2004 was \$9,522 all of which was paid prior to June 30, 2004.

OBMS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2004. The agreement was for a period of one year, effective July 1, 2003. Management fees are calculated as 10% of the 2003/2004 Foundation payment received by OBMS, as reported in the Monthly Community School Foundation Report. The total amount due from OBMS for the fiscal year ending June 30, 2004 was \$162,761 of which \$555 was not paid and is included in accounts payable as of June 30, 2004.

OLD BROOKLYN MONTESSORI SCHOOL

— A Community School —

Cuyahoga County

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

XIV. Related Parties

The members of the OBMS Board of Trustees are also members of Constellation Community Schools (CCS), Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students governing boards. OBMS contracts with CCS for legal, financial and business management services.

XV. Change in Accounting Principles

For fiscal year 2004, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, Statement No. 38, “Certain Financial Statement Note Disclosure”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”. GASB 34 creates new basic financial statements for reporting on the School’s financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. As a result of this change, certain financial statement amounts presented for the prior year have been reclassified in order to be consistent with the current year’s presentation.

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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, 2004 which comprise the School's basic financial statements and have issued our report thereon dated December 17, 2004, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have directly and materially affect 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 we must report 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 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 December 17, 2004.

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

December 17, 2004



**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
JANUARY 18, 2005**