



**Mary Taylor, CPA**  
Auditor of State



OLD BROOKLYN COMMUNITY SCHOOL  
CUYAHOGA COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Old Brooklyn Community School  
Cuyahoga County  
4430 State Road  
Cleveland, Ohio 44109

To the Board of Trustees:

We have audited the accompanying basic financial statements of Old Brooklyn Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2007, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2008, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 7, 2008

## **OLD BROOKLYN COMMUNITY SCHOOL**

### Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

The discussion and analysis of Old Brooklyn Community School's (OBCS) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the financial performance of OBCS as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of OBCS.

### **Financial Highlights**

Key financial highlights for 2007 include the following:

- In total, net assets increased \$148,337, which represents a 13.4% increase from 2006. This increase is due primarily to increased efficiencies in operating OBCS. On March 1, 2006, grades 5 through 8 were split off to form a new middle school. When compared to prior years, this change created a partial year reduction for 2006 and a full year reduction for 2007 in state funding and federal subsidies based on enrollment. There was also an increase in revenue from rent and service income from the new middle school. A substantial private grant was received during the 2007 year.
- Total assets increased \$63,341, which represents a 3.4% increase from 2006. This is due to an increase in cash of \$50,770 and net capital assets of \$47,708 partially offset by a decrease in other current assets of \$35,137. The cash balance increase is due to increased operating efficiencies offset by capital purchases. The increase in capital assets is due primarily to building improvements.
- Liabilities decreased \$84,996, which represents an 11.4% decrease from 2006. Mortgages payable decreased by \$90,629 and current liabilities increased by a total of \$5,633.
- Operating revenues decreased by \$330,511, which represents a 17.9% decrease from 2006. This decrease is a direct result of decreased enrollment from splitting out of the middle school grades. The decrease of \$358,173 in state funding was offset by a \$27,662 increase in other revenue (primarily rent and service income).
- Expenses decreased by \$231,815, which represents a 12.1% decrease from 2006. Operating expense decreases are due to a reduction in staffing, and fewer services and other expenses provided for the decreased enrollment.
- Non-operating revenues increased by \$93,852, which represents a 42.5% increase from 2006. This increase is due primarily to receipt of a grant in the amount of \$87,590 as well as an increase of \$10,043 in interest earned from certificates of deposit.

# OLD BROOKLYN COMMUNITY SCHOOL

## Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

### Using this Financial Report

This report consists of three parts, 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 OBCS has performed financially through June 30, 2007. This statement includes all of the assets, liabilities and net assets 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 Statement of Net Assets for fiscal years ended June 30, 2007 and 2006 for OBCS.

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash	\$ 450,640	\$ 399,870
Other Current Assets	7,422	42,559
Capital Assets	<u>1,452,710</u>	<u>1,405,002</u>
Total Assets	<u>1,910,772</u>	<u>1,847,431</u>
<b>Liabilities</b>		
Current Liabilities	79,184	73,551
Long-Term Liabilities	<u>579,825</u>	<u>670,454</u>
Total Liabilities	<u>659,009</u>	<u>744,005</u>
<b>Net Assets</b>		
Investment in capital assets net of related debt	872,885	735,548
Unrestricted	<u>378,878</u>	<u>368,878</u>
Total Net Assets	<u>\$1,251,763</u>	<u>\$1,103,426</u>

Net Assets increased \$148,337, due primarily to increased efficiencies in operating the school. For assets, cash increased \$50,770; due from other governments increased \$2,348; accounts receivable decreased \$37,521, prepaid employee withholding increased \$36 and net capital assets increased \$47,708 from 2006. For liabilities, accounts payable increased \$42,938; due to other governments decreased \$36,072; accrued wages and benefits decreased \$3,694; interest payable decreased \$309; deferred revenues increased \$2,770 and mortgage notes payable decreased \$90,629 from 2006.



# OLD BROOKLYN COMMUNITY SCHOOL

## Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

### 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, 2007.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for OBCS for fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Foundation and Poverty Based Assistance Revenues	\$1,340,722	\$1,698,895
Other Operating Revenues	<u>172,786</u>	<u>145,124</u>
Operating Revenues	<u>1,513,508</u>	<u>1,844,019</u>
Interest	14,425	4,382
Federal and State Grants	201,706	201,984
Private Grants and Contributions	<u>98,358</u>	<u>14,271</u>
Non-Operating Revenues	<u>314,489</u>	<u>220,637</u>
Total Revenues	<u>1,827,997</u>	<u>2,064,656</u>
<b>Expenses</b>		
Salaries	705,947	842,153
Fringe Benefits	183,302	212,620
Purchased Services	499,638	525,346
Materials and Supplies	117,769	154,404
Capital Outlay	6,831	18,944
Depreciation	104,433	87,779
Other Operating Expenses	<u>61,740</u>	<u>70,229</u>
Total Expenses	<u>1,679,660</u>	<u>1,911,475</u>
<b>Net Income</b>	148,337	153,181
Net Assets at Beginning of Year	<u>1,103,426</u>	<u>950,245</u>
<b>Net Assets at End of Year</b>	<u>\$1,251,763</u>	<u>\$1,103,426</u>

Net Assets increased in both fiscal years ending June 30, 2006 and 2007. This is due to increased operating efficiencies for both years. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease 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.

# OLD BROOKLYN COMMUNITY SCHOOL

## Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

The most significant change in revenues from 2006 to 2007 is a decrease in Foundation and Poverty Based Assistance funds of \$358,173 due to the split off of the middle school grades 5 through 8 at the beginning of March 2006. Other Operating Revenue increased \$27,662 due to rent and services provided to the middle school. Federal and State Grants remained the same while interest income increased from investment in certificates of deposit. A private grant to enhance the school program totaling \$87,590 was received at the end of 2007.

All categories of expense, except depreciation, decreased from 2006 to 2007. This is a direct result of the formation of the middle school in March 2006, partially offset by annual increases in operating costs. Salaries and Fringe Benefits decreased \$165,524; Purchased Services decreased \$25,708. Materials and Supplies decreased \$36,635. Depreciation increased \$16,654 as a direct result of additional building improvements. Other Operating Expenses decreased \$8,489 due to mortgage debt service and reduced insurance premiums.

### Capital Assets

As of June 30, 2007, OBCS had \$1,452,710 invested in computers and office equipment, furniture and equipment, land, building and mortgage loan fees, and building improvements, net of depreciation. This is a \$47,708 increase over June 30, 2006.

The following schedule provides a summary of Capital Assets as of June 30, 2007 and 2006 for OBCS.

	<u>2007</u>	<u>2006</u>
<b>Capital Assets (net of depreciation)</b>		
Land	\$ 80,800	\$ 80,800
Building and Mortgage Loan Fees	828,042	851,690
Building Improvements	482,895	357,291
Computers and Office Equipment	7,688	51,236
Furniture, Equipment & Materials	<u>53,285</u>	<u>63,985</u>
Net Capital Assets	<u>\$1,452,710</u>	<u>\$1,405,002</u>

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

### Debt Service

On November 12, 2002, OBCS purchased the land and 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, 2007 are \$555,979 and \$23,846, respectively.

**OLD BROOKLYN COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
Unaudited

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

**Current Financial Issues**

OBCS opened in the fall of 1998 as one of the first community schools in the State of Ohio. In its ninth year of operations it has grown from 30 students, two teaching staff members and expenses of \$181,928 to a total of 195 students, 20 teaching staff members and expenses of \$1,679,660. During this time we have purchased our own educational facility. On March 1, 2006, grades 5 through 8 were split off from Old Brooklyn Community School to form Old Brooklyn Community Middle School. This will provide more flexibility in the curriculum for each student and will improve our options for limited facilities space. We are currently exploring bond financing to expand the facility to accommodate increasing enrollment and allow both schools to cohabit the same property. As OBCS continues to mature 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 our first nine years.

**Contacting the School's Financial Management**

This financial report is designed to provide our constituents with a general overview of the finances for OBCS and to show 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, by mail at Constellation Schools, 5983 West 54<sup>th</sup> Street, Parma, Ohio 44129; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 440.845.7688; or by faxing 440.845.7689.

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**Old Brooklyn Community School  
Cuyahoga County  
Statement of Net Assets  
As of June 30, 2007**

**Assets:**

**Current Assets:**

Cash	\$450,640
Due from Other Governments	6,926
Accounts Receivable	460
Prepaid Employee Withholding	36
<i>Total Current Assets</i>	458,062

**Non-Current Assets:**

Capital Assets (Net of Accumulated Depreciation)	1,452,710
<i>Total Assets</i>	1,910,772

**Liabilities:**

**Current Liabilities:**

Accounts Payable	66,700
Interest Payable	2,689
Deferred Revenue	9,795
<i>Total Current Liabilities</i>	79,184

**Long Term Liabilities:**

Mortgage Notes Payable	579,825
<i>Total Liabilities</i>	659,009

**Net Assets:**

Investment in capital assets, net of related debt	872,885
Unrestricted	378,878
<i>Total Net Assets</i>	\$1,251,763

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

**Old Brooklyn Community School  
Cuyahoga County  
Statement of Revenues, Expenses and  
Changes in Net Assets  
For the Year Ended June 30, 2007**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$1,340,722
Other Operating Revenues	<u>172,786</u>
<i>Total Operating Revenues</i>	<u>1,513,508</u>

**Operating Expenses:**

Salaries	705,947
Fringe Benefits	183,302
Purchased Services	499,638
Materials and Supplies	117,769
Capital Outlay	6,831
Depreciation	104,433
Other Operating Expenses	<u>61,740</u>
<i>Total Operating Expenses</i>	<u>1,679,660</u>
Operating Loss	<u>(166,152)</u>

**Non-Operating Revenues:**

Interest	14,425
Federal and State Grants	201,706
Private Grants and Contributions	<u>98,358</u>
<i>Total Non-Operating Revenues</i>	<u>314,489</u>
Net Income	<u>148,337</u>
Net Assets at Beginning of the Year	<u>1,103,426</u>
Net Assets at End of Year	<u><u>\$1,251,763</u></u>

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

**Old Brooklyn Community School  
Cuyahoga County  
Statement of Cash Flows  
For the Year Ended June 30, 2007**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$1,304,650
Cash Payments to Suppliers for Goods and Services	(840,713)
Cash Payments to Employees for Services	(709,183)
Other Operating Revenues	<u>226,645</u>
 Net Cash Used for Operating Activities	 <u>(18,601)</u>

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions Received	98,358
Federal and State Grants Received	<u>199,358</u>
 Net Cash Provided by Noncapital Financing Activities	 <u>297,716</u>

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

Payments for Capital Acquisitions	(152,140)
Mortgage Loan Payments	<u>(90,630)</u>
 Net Cash Used for Capital and Related Financing Activities	 <u>(242,770)</u>

**Cash Flows from Investing Activities:**

Interest	<u>14,425</u>
 Net Cash Provided by Investing Activities	 <u>14,425</u>
 Net Increase in Cash	 50,770
Cash at Beginning of Year	<u>399,870</u>
 Cash at End of Year	 <u><u>\$450,640</u></u>

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

**Old Brooklyn Community School  
Cuyahoga County  
Statement of Cash Flows  
For the Year Ended June 30, 2007  
(Continued)**

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

Operating Loss	(\$166,152)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation	104,433
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Changes in Assets and Liabilities:

Decrease in Accounts Receivable	37,521
(Increase) in Prepaid Employee Withholding	(36)
Increase in Accounts Payable	42,938
(Decrease) in Due Other Governments – Foundation	(36,072)
(Decrease) in Accrued Wages and Benefits	(3,694)
(Decrease) in Interest Payable	(309)
Increase in Deferred Revenue	2,770

Total Adjustments	147,551
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Net Cash Used for Operating Activities	(\$18,601)
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The accompanying notes to the financial statements are an integral part of this statement.



**OLD BROOKLYN COMMUNITY SCHOOL**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**Old Brooklyn Community School (OBCS)**, known as Old Brooklyn Montessori School through June 2006, is a nonprofit corporation established on 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. On December 19, 1997, OBCS (under the name Archwood Montessori School) received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 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 OBCS' tax-exempt status. OBCS, which is part of Ohio's education program, is independent of any school district. OBCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of OBCS.

On April 9, 1998, OBCS 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 OBCS 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 OBCS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC was subsequently renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XII for further discussion of the sponsor services. OBCS entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XII for further discussion of this management agreement.

OBCS operates under a five-member Board of Directors. 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 Directors controls OBCS' instructional facility staffed by twenty certificated full time teaching personnel who provide services to 195 students.

Beginning on February 16, 2007, the board members for OBCS also serve as the board for Old Brooklyn Community Middle School. Previous to February 16, 2007 the board members of OBCS were also board members of Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Lorain Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School, Outreach Academy for Children with Disabilities and Puritas Community Middle School.

**OLD BROOKLYN COMMUNITY SCHOOL**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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On March 27, 2007 OBCS changed its legal name to Constellation Schools: Old Brooklyn Community Elementary, but continues to operate as Old Brooklyn Community School.

**II. Summary of Significant Accounting Policies**

The financial statements of OBCS 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. OBCS 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 OBCS' accounting policies are described below.

**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. OBCS prepares financial statements 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 non-

**OLD BROOKLYN COMMUNITY SCHOOL**  
**- A Community School -**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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exchange transactions, in which OBCS 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 the use is first permitted; matching requirements, in which OBCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to OBCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Cash**

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

**4. Budgetary Process**

Pursuant to Ohio Revised Code Chapter 5705.391 OBCS prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. OBCS will from time to time adopt budget revisions as necessary.

**5. Due From Other Governments and Accounts Receivable**

Moneys due OBCS for the year ended June 30, 2007 are recorded as Due From Other Governments and 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. Prepaid Employee Withholding**

Payments made to vendors for voluntary employee benefits prior to collection from the employee that benefit future periods are recorded as prepaid employee withholding. A current asset for the prepaid amount is recorded at the time of the payment and is subsequently reduced upon collection by payroll withholding.

**7. 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.

**OLD BROOKLYN COMMUNITY SCHOOL**  
**- A Community School -**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

All capital assets are depreciated except for land. 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:

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

**8. Intergovernmental Revenues**

OBSC currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

State and Federal 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 2007 school year totaled \$1,542,428.

**9. Private Grants and Contributions**

OBSC received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2007 school year totaled \$98,358.

**OLD BROOKLYN COMMUNITY SCHOOL**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**10. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar; therefore, OBCS 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. OBCS 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.

**11. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**12. Deferred Revenue**

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

**III. Deposits**

At fiscal year end June 30, 2007, the carrying amount of OBCS' deposits totaled \$450,640 and its bank balance was \$493,774. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, \$393,774 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, OBCS will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of OBCS.

**OLD BROOKLYN COMMUNITY SCHOOL**  
**- A Community School -**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**IV. Capital Assets**

A summary of capital assets at June 30, 2007 follows:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Capital Assets Not Being Depreciated:				
Land	<u>\$ 80,800</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 80,800</u>
Capital Assets Being Depreciated:				
Building	936,429	0	0	936,429
Building Improvements	382,538	151,090	0	533,628
Computers/Office Equipment	173,516	0	0	173,516
Furniture and Equipment	<u>116,450</u>	<u>1,050</u>	<u>0</u>	<u>117,500</u>
Total Capital Assets Being Depreciated:	<u>1,608,933</u>	<u>152,140</u>	<u>0</u>	<u>1,761,073</u>
Less Accumulated Depreciation:				
Building	(84,739)	(23,648)	0	(108,387)
Building Improvements	(25,247)	(25,486)	0	(50,733)
Computers/Office Equipment	(122,280)	(43,548)	0	(165,828)
Furniture and Equipment	<u>(52,465)</u>	<u>(11,750)</u>	<u>0</u>	<u>(64,215)</u>
Total Accumulated Depreciation:	<u>(284,731)</u>	<u>(104,432)</u>	<u>0</u>	<u>(389,163)</u>
Total Capital Assets Being Depreciated, Net	<u>1,342,202</u>	<u>47,708</u>	<u>0</u>	<u>1,389,910</u>
Total Capital Assets Net	<u>\$1,405,002</u>	<u>\$47,708</u>	<u>\$0</u>	<u>\$1,452,710</u>

**V. Purchased Services**

Purchased Services include the following:

Instruction	\$50,765
Pupil Support Services	69,240
Staff Development & Support	14,300
Administrative	208,183
Occupancy Costs	107,531
Food Services	48,140
Extracurricular Activities	<u>1,479</u>
Total	<u>\$499,638</u>

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**VI. Dawning School Building Purchase**

On July 1, 2002, OBCS 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. Loan fees totaling \$5,470, have been capitalized and will be depreciated over a fifteen year period. All operations of OBCS are located at this site.

**VII. Mortgage Notes Payable**

On November 12, 2002, OBCS 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 of five years with an interest rate of 9.50 percent per annum.

During fiscal year 2007 principal was reduced by \$37,094 for US Bank National Association and \$53,536 for G & W Properties. Interest expense totaled \$32,647 for US Bank National Association and \$4,831 for G & W Properties. As of June 30, 2007 outstanding principal balances are \$555,979 for the first mortgage and \$23,846 for the second mortgage. Interest payable totaling \$2,595 due US Bank National Association and \$94 for G & W Properties has been recorded as a current liability as of June 30, 2007. Principal payments due on the mortgage notes are as follows:

Year	US Bank	G & W Properties
2008	\$39,181	\$23,846
2009	41,548	0
2010	43,969	0
2011	46,532	0
2012	49,188	0
2013-2017	292,720	0
2018	<u>42,841</u>	<u>0</u>
Total	<u>\$555,979</u>	<u>\$23,846</u>

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**VIII. Risk Management**

**1. Property and Liability Insurance**

OBCS 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 2007, OBCS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$4,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

**2. Workers' Compensation**

OBCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been four claims filed by OBCS employees with the Ohio Worker's Compensation System between January 1, 2000 and June 30, 2007. The total payments made for these claims have been \$1,951. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of OBCS as June 30, 2007.

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

OBCS 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 OBCS for the fiscal year is \$55,947.

**IX. Defined Benefit Pension Plans**

**1. School Employees Retirement System**

OBCS contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. OBCS is also the account through which the management company (CS) makes their required contributions to SERS. Authority to establish and amend benefits is provided by state statute per



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Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and OBCS is required to contribute at an actuarially determined rate. The current rate for OBCS is 14 percent of annual covered payroll. A portion of OBCS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007 (the latest information available), 10.68 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. OBCS' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$6,747, \$4,470 and \$3,723. For fiscal year 2007, all required contributions have been made.

**2. State Teachers Retirement System**

OBCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. OBCS is also the account through which the management company (CS) makes their required contributions to STRS. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio web site at [www.strsoh.org](http://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. 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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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

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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. 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, 2001. 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, 2007, plan members were required to contribute 10 percent of their annual covered salary. OBCS was required to contribute 14 percent. For fiscal year 2007 the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

OBCS' required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005 were \$83,560, \$103,987 and \$108,069. For fiscal year 2007, all required contributions have been made.

**X. Post-Employment Benefits**

OBCS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) 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.

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All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For OBCS, this amount equaled \$6,428 during fiscal 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll in fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For OBCS, the amount contributed to fund health care benefits, including surcharge, during the 2007 fiscal year equaled \$5,927.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

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**XI. Contingencies**

**1. Grants**

OBCS 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 OBCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of OBCS at June 30, 2007.

**2. Litigation**

A lawsuit entitled *Beverly Blount-Hill et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the US District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314 violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on OBCS cannot be presently determined.

**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 adjustments to the state funding received during fiscal year 2007 are reflected in the financial statements.

**XII. Sponsorship and Management Agreements**

OBCS 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 a percentage of state funds received by OBCS, from the State of Ohio. During the 2007 fiscal year the fee changed from 1% to 1.5%. The total amount due from OBCS for fiscal year 2007 was \$17,954 of which \$1,582 was outstanding as of June 30, 2007.

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OBCS entered into an agreement with Constellation Schools (CS) to provide legal, financial, and business management services for fiscal year 2007. The agreement was for a period of one year, effective July 1, 2006. Management fees are calculated as 11.5% of the Fiscal Year 2007 Foundation payment received by OBCS, as reported in the Monthly Community School Foundation Report. The total amount due from OBCS for the fiscal year ending June 30, 2007 was \$154,183 all of which was paid prior to June 30, 2007.

In addition, OBCS is participating in a payroll bonus reserve established through CS. Payroll bonus reserve fees are calculated as 1% of the Fiscal Year 2007 Foundation payment received by OBCS, as reported in the Monthly Community School Foundation Report. The total amount due from OBCS for the fiscal year ending June 30, 2007 was \$13,407 all of which was paid prior to June 30, 2007.

**XIII. Subsequent Events – Bond Financing**

On January 23, 2008 OBCS sold the building it owns and occupies to The Industrial Development Authority of the County of Pima (IDA). As part of a financing arrangement OBCS will lease the property from IDA who issued bonds for the purchase and expansion of the existing structure.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Old Brooklyn Community School  
Cuyahoga County  
4430 State Road  
Cleveland, Ohio 44109

To the Board of Trustees:

We have audited the financial statements of the Old Brooklyn Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 7, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the School's management in a separate letter dated February 7, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees and the School's Sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 7, 2008





**Mary Taylor, CPA**  
Auditor of State

**OLD BROOKLYN COMMUNITY 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  
MARCH 11, 2008**