



**OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

ELYRIA COMMUNITY SCHOOL
LORAIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	9
Notes to the Basic Financial Statements	13
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	25

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Outreach Academy for Children with Disabilities
Cuyahoga County
3326 Broadview Road
Cleveland, Ohio 44109

To the Board of Trustees:

We have audited the accompanying basic financial statements of Outreach Academy for Children with Disabilities, Cuyahoga County, Ohio, (the Academy) 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 Academy'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 Outreach Academy for Children with Disabilities, 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 Academy'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

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES

Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

The discussion and analysis of Outreach Academy for Children with Disabilities' (OACD) 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 OACD 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 OACD.

Financial Highlights

Key financial highlights for 2007 include the following:

- The school began operations in May 2006, and partnered with Hattie Larlham to provide educational services to profoundly disabled children. The 2007 school-year represents the first full year of operations for the school.
- In total, net assets increased \$171,104, which represents a substantial increase from 2006. This increase is due primarily to receipt of a federal start-up grants and purchases of capital equipment for the school. OACD also received revenue by providing services to affiliated schools.
- Total assets increased \$283,061, which represents a 304.9% increase from 2006. This is due to an increase in cash of \$186,174, a decrease in other current assets of \$44,797 (collections of 2006 state foundation revenue) and an increase in net capital assets of \$141,684. The cash balance increase is due primarily to increased vendor payables and operating efficiencies of the school.
- Liabilities increased \$111,957, which represents a 114.7% increase from 2006. Current liabilities at fiscal year end include accounts payable of \$208,272 and payroll payables of \$1,267.
- Operating revenues increased by \$1,208,350, which represents a substantial increase from 2006. This increase is a direct result of operating for twelve months during the 2007 school-year rather than one month in 2006. The increase includes \$1,158,661 in state funding and \$49,689 in other revenue (primarily services income).
- Expenses increased by \$1,369,829, which represents a substantial increase from 2006. As with operating revenues this is a direct result of operating for twelve months during the 2007 school-year rather than one month in 2006 as well as expensing federal start-up funds.
- Non-operating revenues were \$337,238 in 2007. This is mostly from a federal start-up grant of \$300,000; IDEA (funding for individuals with disabilities) of \$33,608 and a state grant \$3,000. Interest income was \$630.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES

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 OACD 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 OACD.

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 186,274	\$ 100
Other Current Assets	48,030	92,827
Capital Assets	<u>141,684</u>	<u>0</u>
Total Assets	<u>375,988</u>	<u>92,927</u>
Liabilities		
Current Liabilities	<u>209,539</u>	<u>97,582</u>
Total Liabilities	<u>209,539</u>	<u>97,582</u>
Net Assets		
Investment in capital assets net of related debt	141,684	0
Unrestricted	<u>24,765</u>	<u>(4,655)</u>
Total Net Assets	<u>\$ 166,449</u>	<u>\$ (4,655)</u>

Net Assets increased \$171,104, due primarily to receipt of federal start-up grants and purchases of capital equipment. For assets, cash increased \$186,174; due from other governments decreased \$55,804; accounts receivable increased \$11,007, and net capital assets increased \$141,684 from 2006. For liabilities, accounts payable increased \$110,690 (Hattie Larlham was owed \$132,013) and accrued wages and benefits increased \$1,267.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES

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 OACD for fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Revenues		
Foundation and Poverty		
Based Assistance Revenues	\$1,251,488	\$ 92,827
Other Operating Revenues	<u>49,689</u>	<u>0</u>
Operating Revenues	<u>1,301,177</u>	<u>92,827</u>
Interest	630	0
Federal and State Grants	<u>336,608</u>	<u>0</u>
Non-Operating Revenues	<u>337,238</u>	<u>0</u>
Total Revenues	<u>1,638,415</u>	<u>92,827</u>
Expenses		
Salaries	554,740	0
Fringe Benefits	153,343	0
Purchased Services	552,620	97,453
Materials and Supplies	96,610	29
Capital Outlay	88,425	0
Depreciation	11,755	0
Other Operating Expenses	<u>9,818</u>	<u>0</u>
Total Expenses	<u>1,467,311</u>	<u>97,482</u>
Net Income/(Loss)	171,104	(4,655)
Net Assets at Beginning of Year	<u>(4,655)</u>	<u>0</u>
Net Assets at End of Year	<u>\$ 166,449</u>	<u>\$ (4,655)</u>

Net Assets increased in fiscal year ending June 30, 2007 and decreased in fiscal year ending June 30, 2006 for a net increase. This is due to operating the school for a full year in 2007 as well as receipt of federal start-up monies and purchases of capital equipment. 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.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES

Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

Overall, revenues increased by \$1,545,588 from 2006 to 2007. The most significant item is revenues from Foundation and Poverty Based Assistance funds which increased \$1,158,661 due to operating for twelve months in 2007 rather than one month in 2006. Other revenues also increased because the school provided services to affiliated schools during the 2007 year. Revenue increases of \$336,608 occurred in Federal and State Grants (federal start-up, IDEA and state information grants). Interest income increased \$630 from 2006.

In total, expenses increased from 2006 to 2007 due to operating for twelve months in 2007 rather than one month in 2006. Salaries and Fringe Benefits increased \$708,083. Purchased Services increased \$455,167 (pupil support services, administrative services, etc.). Materials and Supplies increased \$96,581 and Capital Outlay increased \$88,425 due to purchase of books, supplies, furniture and equipment for the classroom. Depreciation increased \$11,755 as a result of equipment and furniture being placed into service during 2007. Other Operating Expenses increased \$9,818 due to operating for a full year.

Capital Assets

As of June 30, 2007, OACD had \$141,684 invested in computers and office equipment, furniture and equipment, net of depreciation. This is a \$141,684 increase over June 30, 2006.

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

	<u>2007</u>	<u>2006</u>
Capital Assets (net of depreciation)		
Computers and Office Equipment	\$ 30,460	\$0
Furniture, Equipment & Materials	<u>111,224</u>	<u>0</u>
Net Capital Assets	<u>\$141,684</u>	<u>\$0</u>

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

Current Financial Issues

OACD opened on May 24, 2006. In its second year of operations it has grown from 48 students, seven teaching staff members and expenses of \$97,482 to a total of 48 students, eight teaching staff members and expenses of \$1,467,311 (please note that the first year of operations was for only one month of the school year). OACD is currently limited by contract to a maximum of 48 students, which will create challenges as revenues and expenses increase with inflation in future years. As OACD matures we will continue 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.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES

Management's Discussion and Analysis

For the Year Ended June 30, 2007

Unaudited

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for OACD 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 54th Street, Parma, Ohio 44129; by e-mail at babb.thomas@constellationschools.com; by calling 440.845.7688; or by faxing 440.845.7689.

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**Outreach Academy for Children with Disabilities
Cuyahoga County
Statement of Net Assets
As of June 30, 2007**

Assets:

Current Assets:

Cash	\$186,274
Due from Other Governments	37,023
Accounts Receivable	<u>11,007</u>
Total Current Assets	<u>234,304</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>141,684</u>
Total Non-Current Assets	<u>141,684</u>
Total Assets	<u>375,988</u>

Liabilities:

Current Liabilities:

Accounts Payable	208,272
Accrued Wages and Benefits	<u>1,267</u>
Total Current Liabilities	<u>209,539</u>

Net Assets:

Investment in capital assets, net of related debt	141,684
Unrestricted	<u>24,765</u>
Total Net Assets	<u><u>\$166,449</u></u>

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

**Outreach Academy for Children with Disabilities
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$1,251,488
Other Operating Revenues	<u>49,689</u>
Total Operating Revenues	<u>1,301,177</u>

Operating Expenses:

Salaries	554,740
Fringe Benefits	153,343
Purchased Services	552,620
Materials and Supplies	96,610
Capital Outlay	88,425
Depreciation	11,755
Other Operating Expenses	<u>9,818</u>
Total Operating Expenses	<u>1,467,311</u>
Operating Loss	<u>(166,134)</u>

Non-Operating Revenues:

Interest	630
Federal and State Grants	<u>336,608</u>
Total Non-Operating Revenues	<u>337,238</u>
Net Income	<u>171,104</u>
Net Assets at Beginning of the Year	<u>(4,655)</u>
Net Assets at End of Year	<u><u>\$166,449</u></u>

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

**Outreach Academy for Children with Disabilities
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,344,315
Cash Payments to Suppliers for Goods and Services	(793,441)
Cash Payments to Employees for Services	(553,473)
Other Operating Revenues	<u>38,582</u>
Net Cash Provided by Operating Activities	<u>35,983</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>303,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>303,000</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(153,439)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(153,439)</u>

Cash Flows from Investing Activities:

Interest	<u>630</u>
Net Cash Provided by Investing Activities	<u>630</u>
Net Increase in Cash	186,174
Cash at Beginning of Year	<u>100</u>
Cash at End of Year	<u><u>\$186,274</u></u>

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

**Outreach Academy for Children with Disabilities
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007
(Continued)**

**Reconciliation of Operating Loss to Net
Cash Provided by Operating Activities:**

Operating Loss	<u>(\$166,134)</u>
<u>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</u>	
Depreciation	11,755
Changes in Assets and Liabilities:	
Decrease in Due from Other Governments	89,412
(Increase) in Accounts Receivable	(11,007)
Increase in Accounts Payable	110,690
Increase in Accrued Wages and Benefits	<u>1,267</u>
Total Adjustments	<u>202,117</u>
Net Cash Provided by Operating Activities	<u><u>\$35,983</u></u>

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

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

I. Description of the School and Reporting Entity

Outreach Academy for Children with Disabilities (OACD), originally Ohio City Community School (OCCS), is a nonprofit corporation established on January 30, 2001 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 November 13, 2006, OACD applied for tax-exemption status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code (which is still pending with the IRS). Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of OACD. OACD, which is part of Ohio's education program, is independent of any school district. OACD may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of OACD.

OACD (as OCCS) was approved for operation under a contract dated July 22, 2004 between the Governing Authority of OACD (as OCCS) and the Lucas County Educational Service Center (LCESC) (the Sponsor). On July 22, 2005 OACD (as OCCS) entered into a contract with Buckeye Community Hope Foundation (BCHF) to have BCHF replace LCESC as their sponsor. The enrollment at OACD is limited to a maximum of 48 students. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. OACD entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XI for further discussion of this management agreement.

OACD 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 the OACD instructional facility staffed by eighteen certificated full time teaching personnel who provide services to 48 students.

Beginning on February 16, 2007, the board members for OACD also serve as the board for Mansfield Community School. Previous to February 16, 2007 the board members of OACD were also board members of Old Brooklyn Community School, 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 and Puritas Community Middle School.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

On March 27, 2007 OACD changed its legal name to Constellation Schools: Outreach Academy for Students with Disabilities, but continues to operate as Outreach Academy for Children with Disabilities.

II. Summary of Significant Accounting Policies

The financial statements of OACD 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. OACD 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 OACD' 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. OACD 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-exchange transactions, in which OACD receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

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 OACD must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to OACD on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 OACD 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. OACD will from time to time adopt budget revisions as necessary.

5. Due From Other Governments and Accounts Receivable

Moneys due OACD 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 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.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

All capital assets are depreciated. Depreciation of 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, Equipment and Materials	10

8. Intergovernmental Revenues

OACD 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.

OACD also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, OACD was awarded \$300,000 in fiscal year 2007 to offset start-up costs of the School. During fiscal year 2007, \$300,000 from the award was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

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 \$1,588,096.

9. Private Grants and Contributions

OACD receives 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. OACD did not receive any grants and contributions for the 2007 school year.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

10. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, OACD 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. OACD 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 OACD 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 OACD' deposits totaled \$186,274 and its bank balance was \$204,504. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, \$104,504 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, OACD 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 OACD.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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 Being Depreciated:				
Computers/Office Equipment	\$0	\$39,410	\$0	\$39,410
Furniture, Equipment & Materials	<u>0</u>	<u>114,029</u>	<u>0</u>	<u>114,029</u>
Total Capital Assets Being Depreciated:	<u>0</u>	<u>153,439</u>	<u>0</u>	<u>153,439</u>
Less Accumulated Depreciation:				
Computers/Office Equipment	(0)	(8,950)	0	(8,950)
Furniture and Equipment	<u>(0)</u>	<u>(2,805)</u>	<u>0</u>	<u>(2,805)</u>
Total Accumulated Depreciation:	<u>(0)</u>	<u>(11,755)</u>	<u>0</u>	<u>(11,755)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$0</u>	<u>\$141,684</u>	<u>\$0</u>	<u>\$141,684</u>

V. Purchased Services

Purchased Services include the following:

Instruction	\$159,098
Pupil Support Services	193,984
Staff Development & Support	13,726
Administrative	<u>185,812</u>
 Total	 <u>\$552,620</u>

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

VI. Facilities

OACD utilizes space provided by Hattie Larlham at no charge for instructional purposes as part of an overall agreement for services at their facility. Space was provided by Constellation Schools (the management company) for administrative support of the school at no charge.

VII. Risk Management

1. Property and Liability Insurance

OACD 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, OACD 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

OACD makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by OACD employees with the Ohio Worker's Compensation System between January 1, 2000 and June 30, 2007. There have not been any payments made for this claim. In the opinion of management, this claim 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

OACD 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 OACD for the fiscal year is \$64,179.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

OACD participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 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.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary. OACD 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.

OACD' required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 and 2006 were \$72,116 and \$0. For fiscal year 2007, all required contributions have been made.

IX. Post-Employment Benefits

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

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 OACD, this amount equaled \$5,547 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.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

X. Contingencies

1. Grants

OACD 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 OACD. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of OACD 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 OACD 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.

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES
- A Community School -
Cuyahoga County

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

XI. Sponsorship and Management Agreements

OACD entered into an agreement with Buckeye Community Hope Foundation to provide sponsorship and oversight services as required by law. The agreement is effective September 18, 2005. Sponsorship fees are calculated as 2% of state funds received by OACD, from the State of Ohio. The total amount due from OACD for fiscal year 2007 was \$23,153 all of which was paid prior to June 30, 2007.

OACD 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 OACD, as reported in the Monthly Community School Foundation Report. The total amount due from OACD for the fiscal year ending June 30, 2007 was \$143,921 all of which was paid prior to June 30, 2007.

In addition, OACD 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 OACD, as reported in the Monthly Community School Foundation Report. The total amount due from OACD for the fiscal year ending June 30, 2007 was \$12,515 all of which was paid prior to June 30, 2007.

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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*

Outreach Academy for Children with Disabilities
Cuyahoga County
3326 Broadview Road
Cleveland, Ohio 44109

To the Board of Trustees:

We have audited the financial statements of the Outreach Academy for Children with Disabilities, Cuyahoga County, Ohio, (the Academy) 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 Academy'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 Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy'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 Academy'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 Academy'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 Academy'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 Academy's management in a separate letter dated February 7, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 Academy's Sponsor. We intend it for no one other than these specified parties.

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



Mary Taylor, CPA
Auditor of State

OUTREACH ACADEMY FOR CHILDREN WITH DISABILITIES

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**