

**CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA

Auditor of State

Board of Trustees
Constellation Schools: Elyria Community Elementary
300 North Abbe Road
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Elyria Community Elementary, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Constellation Schools: Elyria Community Elementary is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 21, 2009

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**CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
LORAIN COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 26, 2008

The Board of Trustees
Constellation Schools: Elyria Community Elementary
300 North Abbe Road
Elyria, Ohio 44035

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Elyria Community Elementary (the School), as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Constellation Schools: Elyria Community Elementary, as of June 30, 2008, and the respective changes in financial position and 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 November 26, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

The discussion and analysis of Constellation Schools: Elyria Community Elementary (ECE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the financial performance of ECE 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 ECE.

Financial Highlights

Key financial highlights for 2008 include the following:

- In total, net assets increased \$146,997, which represents a 46.4% increase from 2007. Enrollment increased slightly from 2007 to 2008 with grades seven and eight lagging behind projections. Adjustments to staff and programs were made during the 2008 year to manage the leveling off of enrollment from previous years. Beginning with the 2008/2009 school year grades seven and eight have been eliminated.
- Total assets increased \$66,437, which represents a 4.9% increase from 2007. This is due primarily to increased state revenues and reduced expenditures from more efficient operations during the year resulting in an increase in cash at year end.
- Liabilities decreased \$80,560, which represents a 7.7% decrease from 2007 due mainly from principal reductions in mortgages payable.
- Operating revenues increased by \$159,300, which represents a 9.5% increase from 2007. This is a direct result of increased enrollment as well as annual increases in state funding levels.
- Expenses decreased \$28,905 which represents a 1.5% decrease from 2007. Slight increases in salaries, benefits and purchased services were offset by decreases in materials and supplies, capital outlay, depreciation, and other operating expenses.
- Non-operating revenues decreased by \$17,419, which represents an 8.9% decrease from 2007. This decrease is due to reductions in Federal and State Grants for the year.

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.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

Statement of Net Assets

The Statement of Net Assets looks at how well ECE has performed financially through June 30, 2008. 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, 2008 and 2007 for ECE.

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 256,822	\$ 146,092
Other Current Assets	2,592	9,282
Capital Assets	<u>1,166,919</u>	<u>1,204,522</u>
Total Assets	<u>1,426,333</u>	<u>1,359,896</u>
Liabilities		
Current Liabilities	128,940	126,300
Long-Term Liabilities	<u>833,539</u>	<u>916,739</u>
Total Liabilities	<u>962,479</u>	<u>1,043,039</u>
Net Assets		
Investment in capital assets net of related debt	250,180	212,125
Unrestricted	<u>213,674</u>	<u>104,732</u>
Net Assets	<u>\$ 463,854</u>	<u>\$ 316,857</u>

Net Assets increased \$146,997, due primarily to increased state foundation funding during 2008 along with reduced expenditures during the year. For assets, cash increased \$110,730; due from other governments decreased \$6,697; accounts receivable increased \$34, prepaid employee withholding decreased \$27 and net capital assets decreased \$37,603 from 2007. For liabilities, accounts payable decreased \$1,185; accrued wages and benefits decreased \$510; interest payable decreased \$807; deferred revenues decreased \$2,400 and mortgage notes payable decreased \$75,658 from 2007.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

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, 2008.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for ECE for fiscal years ended June 30, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Revenues		
Foundation and Poverty Based Assistance Revenues	\$1,749,617	\$1,577,970
Other Operating Revenues	<u>79,402</u>	<u>91,749</u>
Operating Revenues	<u>1,829,019</u>	<u>1,669,719</u>
Interest	4,126	3,794
Federal and State Grants	174,162	191,413
Private Grants and Contributions	<u>-0-</u>	<u>500</u>
Non-Operating Revenues	<u>178,288</u>	<u>195,707</u>
Total Revenues	<u>2,007,307</u>	<u>1,865,426</u>
Expenses		
Salaries	800,619	795,769
Fringe Benefits	231,853	199,431
Purchased Services	584,466	561,207
Materials and Supplies	100,011	164,395
Capital Outlay	3,689	12,558
Depreciation	45,670	54,665
Other Operating Expenses	<u>94,002</u>	<u>101,190</u>
Total Expenses	<u>1,860,310</u>	<u>1,889,215</u>
Net Income/(Loss)	146,997	(23,789)
Net Assets at Beginning of Year	<u>316,857</u>	<u>340,646</u>
Net Assets at End of Year	<u>\$ 463,854</u>	<u>\$ 316,857</u>

Net Assets increased in fiscal year 2008 and decreased in fiscal year 2007 for a combined net increase. This combined increase is due primarily to increasing revenues from increased enrollment and annual funding increases. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

The most significant increases in revenues from 2007 to 2008 are Foundation and Poverty Based Assistance funds which increased \$171,647 due to enrollment increases and increases in formula amounts. Federal and State Grants decreased \$17,251 due mainly to reductions in title allocations. Financing of capital equipment in 2007, increases in interest income and decreases in private grants account for the remaining changes.

Three categories of expense increased from 2007 to 2008 while four categories decreased. Salaries and Fringe Benefits increased \$37,272 due to annual increases. Purchased services increased \$23,259 due to annual increases for pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$64,384 and Capital Outlay decreased \$8,869 due to sufficient purchases in 2007 and prior years of text books, classroom supplies, furniture and equipment for classroom expansion. Depreciation decreased \$8,995 as a direct result of furniture and equipment reaching full depreciation in 2007. Other Operating Expenses decreased \$7,188 due to reductions in mortgage debt service and insurance premiums.

Capital Assets

As of June 30, 2008, ECE had \$1,166,919 invested in land, building and mortgage loan fees, building improvements, computers and office equipment, and furniture, equipment and materials, net of depreciation. This is a \$37,603 decrease over June 30, 2007.

The following schedule provides a summary of Fixed Assets as of June 30, 2008 and 2007 for ECE.

	<u>2008</u>	<u>2007</u>
Capital Assets (net of depreciation)		
Land	\$ 133,700	\$ 133,700
Building and Mortgage Loan Fees	968,806	995,593
Building Improvements	27,352	29,442
Computers and Office Equipment	9,081	20,977
Furniture, Equipment & Materials	<u>27,980</u>	<u>24,810</u>
Net Fixed Assets	<u>\$1,166,919</u>	<u>\$1,204,522</u>

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

Debt Service

On August 23, 2004 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by National City Bank with a face value of \$918,000 for a term of ten years and an interest rate of 7.69% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to \$780,300. The second mortgage is held by Horizon Activities Center with a face value of \$255,000 for a term of seven years and an interest rate of 7.00% per annum. The outstanding principal balances as of June 30, 2008 are \$782,839 and \$133,900 respectively.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

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

Current Financial Issues

Constellation Schools: Elyria Community Elementary opened in the fall of 2001. In its seventh year of operations it has grown from 75 students, eight teaching staff members and expenses of \$485,420 to a total of 255 students, 23 teaching staff members and expenses of \$1,860,310. During this time we have purchased our own educational facility.

Beginning with the 2008-2009 school-year ECE changed to a kindergarten to grade six school. Enrollment in grades 7 and 8 has been below projections resulting in inefficient use of staff, program materials and school facilities.

As the School matures to a full and stable enrollment base we strive to maintain a high level of services, to provide a strong educational product to our students and families and to maintain the reputation we have developed during our operations.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for ECE 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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**Constellation Schools: Elyria Community Elementary
Lorain County
Statement of Net Assets
As of June 30, 2008**

Assets:

Current Assets:

Cash	\$256,822
Due from Other Governments	2,132
Accounts Receivable	460
<i>Total Current Assets</i>	259,414

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	1,166,919
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<i>Total Assets</i>	1,426,333
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Liabilities:

Current Liabilities:

Accounts Payable	18,813
Accrued Wages and Benefits	8,081
Interest Payable	5,631
Deferred Revenue	13,215
Mortgage Notes Payable	83,200
<i>Total Current Liabilities</i>	128,940

Long Term Liabilities:

Mortgage Notes Payable	833,539
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<i>Total Liabilities</i>	962,479
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Net Assets:

Investment in capital assets, net of related debt	250,180
Unrestricted	213,674

<i>Total Net Assets</i>	\$463,854
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Elyria Community Elementary
Lorain County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$1,749,617
Other Operating Revenues	79,402
	1,829,019
<i>Total Operating Revenues</i>	<i>1,829,019</i>

Operating Expenses:

Salaries	800,619
Fringe Benefits	231,853
Purchased Services	584,466
Materials and Supplies	100,011
Capital Outlay	3,689
Depreciation	45,670
Other Operating Expenses	20,971
	1,787,279
<i>Total Operating Expenses</i>	<i>1,787,279</i>
Operating Income	41,740

Non-Operating Revenues & Expenses:

Interest Income	4,126
Interest Expense	(73,031)
Federal and State Grants	174,162
	105,257
<i>Total Non-Operating Revenues & Expenses</i>	<i>105,257</i>
Net Income	146,997
Net Assets at Beginning of the Year	316,857
Net Assets at End of Year	\$463,854

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

**Constellation Schools: Elyria Community Elementary
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,749,617
Cash Payments to Suppliers for Goods and Services	(950,531)
Cash Payments to Employees for Services	(793,592)
Other Operating Revenues	<u>77,007</u>
Net Cash Provided by Operating Activities	<u>82,501</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>180,859</u>
Net Cash Provided by Noncapital Financing Activities	<u>180,859</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(8,067)
Mortgage Loan Principal Payments	(75,658)
Mortgage Loan Interest Payments	<u>(73,031)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(156,756)</u>

Cash Flows from Investing Activities:

Interest	<u>4,126</u>
Net Cash Provided by Investing Activities	<u>4,126</u>
Net Increase in Cash	110,730
Cash at Beginning of Year	<u>146,092</u>
Cash at End of Year	<u><u>\$256,822</u></u>

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

Constellation Schools: Elyria Community Elementary
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008
(Continued)

Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:

Operating Income	\$41,740
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Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:

Depreciation	45,670
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Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(34)
Decrease in Prepaid Employee Withholding	27
(Decrease) in Accounts Payable	(1,185)
(Decrease) in Accrued Wages and Benefits	(510)
(Decrease) in Interest Payable	(807)
(Decrease) in Deferred Revenue	(2,400)

Total Adjustments	40,761
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Net Cash Provided by Operating Activities	\$82,501
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
- A Community School -
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

I. Description of the School and Reporting Entity

Constellation Schools: Elyria Community Elementary (ECE) is a nonprofit corporation established originally as Elyria Community School on August 25, 2000 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 7, 2001, ECE 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 which may adversely affect the tax-exempt status of ECE. ECE, which is part of Ohio's education program, is independent of any school district. ECE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of ECE.

ECE was approved for operation under a contract between the Governing Authority of Constellation Schools: Elyria Community Elementary and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. On October 16, 2003 ECE 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. ECE 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. On March 27, 2007 the school name was changed to Constellation Schools: Elyria Community Elementary.

ECE 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 ECE instructional facility staffed by twenty-three certificated full time teaching personnel who provide services to 255 students. During 2008, the board members for ECE also serve as the board for Constellation Schools: Lorain Gifted Academy.

II. Summary of Significant Accounting Policies

The financial statements of ECE have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
- A Community School -
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. ECE 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 ECE's 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. ECE 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 ECE 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 ECE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to ECE on a reimbursement basis. Expenses are recognized at the time they are incurred.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
- A Community School -
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Monies due ECE for the year ended June 30, 2008 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 monies to be due.

6. Capital Assets, Mortgage Fees and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. 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 fixed assets are depreciated over the remaining useful lives of the related fixed assets. Estimated useful lives are as follows:

Capital Asset Classification	Years
Building	40
Building Improvements	10-40
Mortgage Loan Fees	15
Computers and Office Equipment	3
Furniture, Equipment and materials	10

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
- A Community School -
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

7. Intergovernmental Revenues

ECE 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. ECE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. 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 2008 school year totaled \$1,923,779.

8. Private Grants and Contributions

ECE 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 2008 school year totaled \$-0- and in 2007 totaled \$500.

9. Compensated Absences

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

10. 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.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
- A Community School -
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

11. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2008, the carrying amount of ECE's deposits totaled \$256,822 and its bank balance was \$280,547. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, \$180,547 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, ECE 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 ECE.

IV. Purchased Services

Purchased Services include the following:

Instruction	\$74,928
Pupil Support Services	87,968
Staff Development & Support	14,182
Administrative	272,959
Occupancy Costs	90,553
Food Services	<u>43,876</u>
Total	<u>\$584,466</u>

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY ELEMENTARY
- A Community School -
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

V. Capital Assets

A summary of capital assets at June 30, 2008 follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Not Being Depreciated:				
Land	<u>\$133,700</u>	<u>\$0</u>	<u>\$0</u>	<u>\$133,700</u>
Capital Assets Being Depreciated:				
Building	1,071,493	0	0	1,071,493
Building Improvements	33,759	0	0	33,759
Computers/Office Equipment	141,436	717	0	142,153
Furniture and Equipment	<u>34,450</u>	<u>7,350</u>	<u>0</u>	<u>41,800</u>
Total Capital Assets Being Depreciated:	<u>1,281,138</u>	<u>8,067</u>	<u>0</u>	<u>1,289,205</u>
Less Accumulated Depreciation:				
Building	(75,900)	(26,787)	0	(102,687)
Building Improvements	(4,317)	(2,090)	0	(6,407)
Computers/Office Equipment	(120,459)	(12,613)	0	(133,072)
Furniture and Equipment	<u>(9,640)</u>	<u>(4,180)</u>	<u>0</u>	<u>(13,820)</u>
Total Accumulated Depreciation:	<u>(210,316)</u>	<u>(45,670)</u>	<u>0</u>	<u>(255,986)</u>
Total Capital Assets Being Depreciated, Net	<u>1,070,822</u>	<u>(37,603)</u>	<u>0</u>	<u>1,033,219</u>
Total Capital Assets Net	<u>\$1,204,522</u>	<u>\$ (37,603)</u>	<u>\$ 0</u>	<u>\$ 1,166,919</u>

VI. Allen School Purchase

On August 23, 2004, ECE purchased the former Allen School located at 300 North Abbe Road, Elyria, from the previous landlord, Horizon Activities Center. The purchase price of \$1,200,000, along with other purchase costs totaling \$5,193, have been capitalized and will be depreciated over a forty year period. All operations of the school are located at this site.

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VII. Mortgage Notes Payable

On August 23, 2004, ECE entered into two mortgage agreements relating to the purchase of the property at 300 North Abbe Road (see note VI).

A first mortgage note in the amount of \$918,000 is held by National City Bank. The note is for a term of ten years with an interest rate of 7.69 percent per annum and a balloon payment due at the end of the term in fiscal year 2015. The Ohio School Facilities Commission has guaranteed the first mortgage up to \$780,300.

A second mortgage note in the amount of \$255,000 is held by Horizon Activities Center and is subordinate to the first mortgage. The note is for a term of seven years with an interest rate of 7.00 percent per annum.

During fiscal year 2008 principal was reduced by \$40,206 for National City Bank and \$35,452 for Horizon Activities Center. Interest expense totaled \$62,506 for National City Bank and \$10,525 for Horizon Activities Center. As of June 30, 2008 outstanding principal balances are \$782,839 for National City Bank and \$133,900 for Horizon Activities Center. Interest payable totaling \$4,850 due National City Bank and \$781 due Horizon Activities Center has been recorded as a current liability as of June 30, 2008. Principal and interest payments due on the mortgage notes are as follows:

Year	US Bank		Horizon Activities Center	
	Principal	Interest	Principal	Interest
2009	\$ 45,185	\$ 58,127	\$ 38,015	\$ 8,169
2010	48,785	54,528	40,763	5,421
2011	52,672	50,641	43,710	2,474
2012	56,868	46,445	11,412	133
2013	61,399	41,914	0	0
2014-15	<u>517,930</u>	<u>6,005</u>	<u>0</u>	<u>0</u>
Total	<u>\$782,839</u>	<u>\$257,660</u>	<u>\$133,900</u>	<u>\$ 16,197</u>

VIII. Risk Management

1. Property and Liability Insurance

ECE 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 2008, ECE contracted with Indiana Insurance Company for all of its insurance.

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General property and liability is covered at \$10,000,000 single occurrence limit and \$11,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 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

ECE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been five claims filed by ECE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2008. The total payments made for these claims have been \$4,884. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of ECE as June 30, 2008.

3. Employee Medical, Dental, and Life Benefits

ECE 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 ECE for fiscal year 2008 are \$83,385.

IX. Defined Benefit Pension Plans

1. State Teachers Retirement System

ECE 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 comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average of the members’ three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members’ lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members’ designated beneficiary is entitled to receive the member’s account balance.

The Combined Plan offers features of the DC Plan and the DB Plan. Member contributions are allocated to investments selected by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Plan members’ defined benefit is determined by multiplying 1% of the members’ final average salary by the members’ years of service credit. The defined portion of the Combined Plan is payable to members on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

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A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

For the fiscal year ended June 30, 2008, members were required to contribute 10% of their annual covered salary and ECE was required to contribute 14%. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14% contributed by ECE, 13% was the portion used to fund pension obligations.

ECE's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were \$96,331, \$97,310 and \$70,253, respectively; 99.05% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$910 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

ECE contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under *Forms and Publications*.

Plan members are required to contribute 10% of their annual covered salary and ECE is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members

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and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. ECE's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$8,345, \$6,612, and \$6,294, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

X. Post-Employment Benefits Other than Pension Benefits

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Section 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. For the fiscal years ended June 30, 2008, 2007 and 2006 ECE's contributions to post-employment health care were \$7,410, \$7,485 and \$5,404, respectively; 99.1% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$70 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds.

SERS administers two post-employment benefit plans, the Medicare Part B Plan and the Health Care Plan as permitted by Ohio Revised Code Sections 3309.69 and 3309.375. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees. The Health Care Plan provides health care and prescription drug plans administered by two third-party administrators. The Retirement Board establishes rules for premiums paid by retirees for health care coverage and varies depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The Medicare Part B premium reimbursement plan reimburses eligible retirees for the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2007 (most recent information available) was \$93.50. SERS' reimbursement to retirees was \$45.50. The Retirement Board, with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2007 (most recent information available) the actuarially required allocation was .68%. For the fiscal years ended June 30, 2008, 2007

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and 2006 ECE's contributions to Medicare Part B were \$405, \$321 and \$306, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

The Health Care Plan is funded through employer contributions. Each year after allocations for required benefits the Retirement Board allocates the remainder of the employers' 14% contribution. At June 30, 2007 (the most recent information available) the health care allocation was 3.32%. The actuarially required contribution (ARC), as of December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

For fiscal years ended June 30, 2008, 2007 and 2006 ECE contributions to the Health Care Plan, including the surcharge were \$2,878, \$2,281 and \$2,215, respectively; 68.76% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$899 representing the unpaid surcharge due for fiscal year 2008 is recorded as a liability within the respective funds.

XI. Contingencies

1. Grants

ECE 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 ECE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ECE at June 30, 2008.

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2. 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 2008 are reflected in the financial statements.

XII. Sponsorship and Management Agreements

ECE entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2008 Foundation payments received by ECE, from the State of Ohio. The total amount due from ECE for fiscal year 2008 was \$26,244 all of which was paid prior to June 30, 2008.

ECE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2008. The agreement was for a period of one year, effective July 1, 2007. Management fees are calculated as 5.5% of the Fiscal Year 2008 Foundation payment received by ECE from the State of Ohio plus a fixed fee of \$125,000. The total amount due from ECE for the fiscal year ending June 30, 2008 was \$221,233 all of which was paid prior to June 30, 2008.

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 26, 2008

To the Board of Trustees
Constellation Schools: Elyria Community Elementary
300 North Abbe Road
Elyria, OH 44035

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Constellation Schools: Elyria Community Elementary as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 26, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Constellation Schools: Elyria Community Elementary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion 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 the normal course of 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Constellation Schools: Elyria Community Elementary in a separate letter dated November 26, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Constellation Schools: Elyria Community Elementary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the School's sponsor, and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



Mary Taylor, CPA
Auditor of State

**CONSTELLATION SCHOOLS:
ELYRIA COMMUNITY ELEMENTARY**

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 3, 2009**