CONSTELLATION SCHOOLS: LORAIN COMMUNITY MIDDLE
LORAIN COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

Board of Trustees
Constellation Schools: Lorain Community Middle
5983 West 54th Street
Parma, Ohio 44129

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Lorain Community Middle, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2008 through June 30, 2009. 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: Lorain Community Middle is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 17, 2009

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CONSTELLATION SCHOOLS: LORAIN COMMUNITY MIDDLE
LORAIN COUNTY

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

November 25, 2009

The Board of Trustees
Constellation Schools: Lorain Community Middle
307 West 7th Street
Lorain, Ohio 44052

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Lorain Community Middle (the School), as of and for the year ended June 30, 2009, 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: Lorain Community Middle, as of June 30, 2009, 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 25, 2009 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.

Rea & Associates, Inc.

The discussion and analysis of Constellation Schools: Lorain Community Middle's (LCM) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the financial performance of LCM 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 LCM.

Financial Highlights

Key financial highlights for 2009 include the following:

- In total, net assets decreased $33,493, which represents a 21.7% decrease from 2008. This decrease is due to the school taking over the entire facility it occupies rather than sharing occupancy costs with another school and due to the school needing to increase enrollment during the next few years..

- Total assets decreased $24,322, which represents a 15.0% decrease from 2008. Most of this decrease is from depreciation of capital assets partially offset by increased cash.

- Liabilities increased by $9,171, which represents a 110.1% increase from 2008. All of this increase occurred in vendor accounts payable and accrued wages and benefits.

- Operating revenues increased by $250,923, which represents a 31.7% increase from 2008. This is a direct result of increased enrollment and a supporting subsidy received during the year.

- Expenses increased by $330,949 which represents a 38.2% increase from 2008. Operating expense increases are due to increased facility and food services costs because the school no longer shares the its facility with another school.

- Non-operating revenues increased by $36,725, which represents a 42.4% increase from 2008. This is due to receipt of additional federal grants.

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 LCM has performed financially through June 30, 2009. 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, 2009 and 2008 for LCM.

	2009	2008
Assets		
Cash	$34,885	$17,431
Other Current Assets	1,546	2,207
Security Deposits	0	2,933
Capital Assets	101,608	139,790
Total Assets	138,039	162,361
Liabilities		
Current Liabilities	17,498	8,327
Total Liabilities	17,498	8,327
Net Assets		
Investment in capital assets	101,608	139,790
Unrestricted	18,933	14,244
Total Net Assets	$120,541	$154,034

Net Assets decreased $33,493, due primarily to increased operating expenses from the school taking over full operations of the school facility it operates in. For assets, cash increased $17,454; due from other governments increased $144; accounts receivable decreased $805; security deposits decreased $2,933 and net capital assets decreased $38,182 from 2008. For liabilities, accounts payable increased $2,213; accrued wages and benefits increased $7,360 and deferred revenues decreased $402 from 2008.

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, 2009.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for LCM for fiscal years ended June 30, 2009 and 2008.

	2009	2008
Revenues		
Foundation and Poverty Based Assistance Revenues	$767,405	$675,697
Other Operating Revenues	273,993	114,778
Total Operating Revenues	1,041,398	790,475
Federal and State Grants	123,346	86,621
Total Non-Operating Revenues	123,346	86,621
Total Revenues	1,164,744	877,096
Expenses		
Salaries	476,955	380,750
Fringe Benefits	156,237	129,750
Purchased Services	447,682	243,707
Materials and Supplies	54,853	41,948
Capital Outlay	10,164	15,009
Depreciation	39,656	42,335
Other Operating Expenses	12,690	13,789
Total Expenses	1,198,237	867,288
Net Income/(Loss)	(33,493)	9,808
Net Assets at Beginning of the Year	154,034	144,226
Net Assets at End of Year	$120,541	$154,034

Net Assets decreased in fiscal year ended June 30, 2009 and increased in fiscal year ended June 30, 2008. This is due to increased facility and food services costs in 2009 and other operating revenues received by the school in 2008. 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.

Revenues increased by $287,648 from 2008 to 2009. One of the most significant items is a $91,708 increase in the Foundation and Poverty Based Assistance funds from the state of Ohio due to increased enrollment. Other revenues increased $159,215 because of a $170,000 subsidy increase from Constellation Schools.

Expenses increased from 2008 to 2009 by $330,949. Salaries and Fringe Benefits increased $122,692 due to staff increases and annual salary increases. Purchased services increased $203,975 due to increased pupil support services, administrative services, food services and occupancy costs. Materials and Supplies increased $12,905 and Capital Outlay decreased $4,845 due to additional purchases of text books and classroom supplies that were delayed from 2008 and furniture and equipment for classrooms that were made during 2008. Depreciation decreased $2,679 as a result of equipment and furniture becoming fully depreciated during the year. Other Operating Expenses decreased $1,099 due to reduced audit expenses.

Capital Assets

As of June 30, 2009, LCM had $101,608 invested in computers, technology, furniture and equipment, net of depreciation. This is a $38,182 decrease over June 30, 2008.

The following schedule provides a summary of Fixed Assets as of June 30, 2009 and 2008 for LCM.

	2009	**2008**
Capital Assets (net of depreciation)		
Computers and Technology	$10,553	$36,933
Furniture and Equipment	91,055	102,857
Net Capital Assets	$101,608	$139,790

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

Current Financial Issues

Constellation Schools: Lorain Community Middle opened in January of 2006. It has grown from 57 students, four teaching staff members and expenses of $254,136 to a total of 104 students, 14 teaching staff members and expenses of $1,198,237 (please note that the first year of operations was for only one-half of a school year). In January 2006 grades 5 through 8 were split off from Lorain Community School to form Constellation Schools: Lorain Community Middle. This is providing more flexibility in the curriculum for each student and improving our options for limited facilities space. Up until fiscal year 2009, the school shared its current facility to split occupancy costs and food service was provided by the other school. Beginning with fiscal year 2009 the school solely occupies the building it leases and has assumed all of the occupancy and food service expenses. Enrollment increases in future year continues to an issue which needs to be resolved.

During the past year as the nation has experienced a major economic downturn, the Board of Directors, school management and school staff have worked diligently to ensure that the school maintains the high level of educational services and financial integrity that we have always provided. Our goal is to provide a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for LCM 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 440.845.4200; or by faxing 440.845.4201.

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Constellation Schools: Lorain Community Middle
Lorain County
Statement of Net Assets
As of June 30, 2009

Assets:	
Current Assets:	
Cash	$34,885
Due from Other Governments	1,546
Total Current Assets	36,431
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	101,608
Total Non-Current Assets	101,608
Total Assets	138,039
Liabilities:	
Current Liabilities:	
Accounts Payable	5,475
Accrued Wages and Benefits	7,360
Deferred Revenue	4,663
Total Liabilities	17,498
Net Assets:	
Investment in capital assets	101,608
Unrestricted	18,933
Total Net Assets	$120,541

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

Constellation Schools: Lorain Community Middle
Lorain County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$767,405
Other Operating Revenues	273,993
Total Operating Revenues	1,041,398
Operating Expenses:	
Salaries	476,955
Fringe Benefits	156,237
Purchased Services	447,682
Materials and Supplies	54,853
Capital Outlay	10,164
Depreciation	39,656
Other Operating Expenses	12,690
Total Operating Expenses	1,198,237
Operating Loss	(156,839)
Non-Operating Revenues:	
Federal and State Grants	123,346
Total Non-Operating Revenues	123,346
Net Loss	(33,493)
Net Assets at Beginning of the Year	154,034
Net Assets at End of Year	$120,541

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

Constellation Schools: Lorain Community Middle
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$767,405
Cash Payments to Suppliers for Goods and Services	(679,412)
Cash Payments to Employees for Services	(469,595)
Other Operating Revenues	274,396
Net Cash Used for Operating Activities	(107,206)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	123,201
Net Cash Provided by Noncapital Financing Activities	123,201
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(1,474)
Reimbursement of Security Deposit	2,933
Net Cash Provided by Capital and Related Financing Activities	1,459
Net Increase in Cash	17,454
Cash at Beginning of Year	17,431
Cash at End of Year	$34,885

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

Constellation Schools: Lorain Community Middle
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($156,839)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	39,656
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	805
Increase in Accounts Payable	2,214
Increase in Accrued Wages and Benefits	7,360
(Decrease) in Deferred Revenue	(402)
Total Adjustments	49,633
Net Cash Used for Operating Activities	($107,206)

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

I. Description of the School and Reporting Entity

Constellation Schools: Lorain Community Middle (LCM), previously Mansfield Academy for Gifted Students (MAGS) and Lorain Community Middle School (LCMS), is a nonprofit corporation established on December 5, 2003 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 March 28, 2006, LCM was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of LCM. LCM, which is part of Ohio's education program, is independent of any school district. LCM may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of LCM.

LCM (as MAGS) was approved for operation under a contract dated January 20, 2004 between the Governing Authority of LCM (as MAGS) and the Lucas County Educational Service Center (LCESC) (the Sponsor). On August 18, 2005 LCM (as MAGS) entered into a contract with Buckeye Community Hope Foundation (BCHF) to have BCHF replace LCESC as their sponsor, which was amended January 22, 2009 to extend the term of the original contract until June 30, 2010. Under the terms of the contract BHCF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. LCM 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. On March 27, 2007 the school name was changed to Constellation Schools: Lorain Community Middle.

LCM 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 LCM instructional facility staffed by fourteen certificated full time teaching personnel who provided services to 104 students. During 2009, the board members for LCM also serve as the board for Constellation Schools: Lorain Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of LCM have been prepared in conformity with generally accepted accounting principles (GAAP) 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 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. LCM also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. LCM has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of LCM'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. LCM 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 LCM 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 LCM must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to LCM on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Moneys due LCM for the year ended June 30, 2009 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 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.

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 fixed assets are depreciated over the remaining useful lives of the related fixed assets. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers and Technology	3
Furniture and Equipment	10

7. Intergovernmental Revenues

LCM 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. LCM also participates in Federal Entitlement Programs 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 2009 school year totaled $890,751.

8. Private Grants and Contributions

LCM 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. LCM did not receive any grants and contributions for the 2009 school year.

9. Compensated Absences

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

11. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2009, the carrying amount of LCM' deposits totaled $34,885 and its bank balance was $46,130. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2009, none of the bank balance was exposed to custodial risk as discussed below, while $46,130 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, LCM 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 LCM.

IV. Purchased Services

Purchased Services include the following:

Instruction	$63,919
Pupil Support Services	52,990
Staff Development & Support	9,090
Administrative	137,883
Occupancy Costs	159,089
Food Services	24,060
Extracurricular Activities	651
Total Purchased Services	$447,682

V. Capital Assets

A summary of capital assets at June 30, 2009 follows:

	Balance 6/30/08	Additions	Deletions	Balance 6/30/09
Capital Assets Being Depreciated				
Computers and Technology	$92,244	$1,474	$0	$93,718
Furniture and Equipment	118,020	0	0	118,020
Total Capital Assets Being Depreciated	210,264	1,474	0	211,738
Less Accumulated Depreciation				
Computers and Technology	(55,311)	(27,854)	0	(83,165)
Furniture and Equipment	(15,163)	(11,802)	0	(26,965)
Total Accumulated Depreciation	(70,474)	(39,656)	0	(110,130)
Total Capital Assets, Net of Accumulated Depreciation	$139,790	($38,182)	$0	$101,608

VI. Operating Lease

LCM sub-leased its facilities 309 Seventh Street, Lorain from Constellation Schools: Lorain Gifted Academy (LGA) under a one-year sub-lease agreement for fiscal year 2008. Effective July 1, 2008 LCM assumed the lease from LGA from St. Mary Church. Under terms of the lease the facility has one year remaining until June 30, 2009 with a lease rate of $8,784.60 per month. Rents paid to St. Mary's Church Schools: Lorain Gifted Academy during the fiscal year totaled $105,415. The lease was subsequently renewed for fiscal year 2010.

VII. Risk Management

1. Property and Liability Insurance

LCM 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 2009, LCM contracted with Indiana Insurance Company for all of its' insurance.

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. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

2. Workers' Compensation

LCM makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by LCM employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2009.

3. Employee Medical, Dental, and Life Benefits

LCM 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 LCM for the fiscal year is $71,570.

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

LCM 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. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

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%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's 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 for DB Plan participants.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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.

Member contributions in the Combined Plan are allocated by the member, and employer contributions are used to fund a defined benefit payment. A 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 a member 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.

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.

The DB and Combined Plan offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are 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. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2008 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

LCM's required contributions for pension obligations for the fiscal years ended June 30, 2009, 2008 and 2007 were $55,211, $46,619 and $44,003, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

LCM 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 Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and LCM is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. LCM's contributions to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were $7,315, $3,100 and $2,817, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

IX. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plans. STRS Ohio provides access to health care coverage 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 Ohio. 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. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2009, 2008 and 2007 LCM's contributions to post-employment health care were $4,247, $3,586 and $3,384, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2009 the actuarially required allocation is .75%. For the fiscal years ended June 30, 2009, 2008 and 2007 LCM contributions to Medicare Part B were $392, $150 and $137, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Ohio Revised Code provides a statutory authority to fund SERS' postemployment benefits through employee contributions. Active members do not make contributions to the postemployment plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009 the health care allocation is 4.16%. 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 2009, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2009, 2008 and 2007 LCM contributions to the Health Care Plan, including the surcharge were $2,962, $1,069 and $974, respectively; 73.4% has been contributed for fiscal year 2009 and 100% for fiscal years 2008 and 2007. $788 representing the unpaid surcharge due for fiscal year 2009 is recorded as a liability within the respective funds.

X. Contingencies

1. Grants

LCM 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 LCM. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LCM at June 30, 2009.

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 2009 are reflected in the financial statements.

XI. Sponsorship and Management Agreements

LCM entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective September 18, 2005 and was amended to continue through June 30, 2010. Sponsorship fees are calculated as 2% of the Fiscal Year 2009 Foundation payments received by LCM, from the State of Ohio. The total amount due from LCM for fiscal year 2009 was $15,347, all of which was paid prior to June 30, 2009.

LCM entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2009. The agreement was for a period of one year, effective July 1, 2008. Management fees are calculated as 5.5% of the Fiscal Year 2009 Foundation payment received by LCM from the State of Ohio plus a fixed fee of $50,000. The total amount due from LCM for the fiscal year ending June 30, 2009 was $92,207 all of which was paid prior to June 30, 2009.

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 25, 2009

To the Board of Trustees
Constellation Schools: Lorain Community Middle
201 West Erie Street
Lorain, Ohio 44052

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: Lorain Community Middle as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 25, 2009. 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: Lorain Community Middle'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: Lorain Community Middle in a separate letter dated November 25, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Constellation Schools: Lorain Community Middle'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.

Rea & Associates, Inc.
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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Constellation Schools: Lorain Community Middle
307 West 7th Street
Lorain, OH 44052

November 25, 2009

To the Board of Trustees:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Constellation Schools: Lorain Community Middle (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on October 20, 2007.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

(3) A procedure for reporting prohibited incidents;

(4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

(5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

(6) A procedure for documenting any prohibited incident that is reported;

(7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Mary Taylor, CPA
Auditor of State

LORAIN COMMUNITY MIDDLE

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
DECEMBER 31, 2009

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