



**ELYRIA COMMUNITY SCHOOL
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**ELYRIA COMMUNITY SCHOOL
LORAIN COUNTY
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Elyria Community School
Lorain County
300 North Abbe
Elyria, Ohio 44035

We have audited the accompanying basic financial statements of the business-type activities of the Elyria Community School, Lorain County, Ohio, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elyria Community School, Lorain County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 17, 2004

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

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

Financial Highlights

Key financial highlights for 2004 include the following:

- In total, net assets increased \$141,405, which represents a 120.4% increase from 2003. This increase is due to an increased enrollment of 43 students resulting in increased state funding and federal subsidies and unexpended year-end balance on a private grant from the Walton Family Foundation (\$129,500).
- Total assets increased \$145,001, which represents a 98.4% increase from 2003. This increase is due to an increase in the year end cash balance of \$147,861 which is the result of increased enrollment and the unexpended grant funds.
- Liabilities increased \$3,596, which represents a 12.0% increase from 2003. Accounts payable increased by \$7,655; wages and taxes payables increased \$1,111 and deferred revenue decreased \$5,170.
- Operating revenues increased by \$326,587, which represents a 46.0% increase from 2003. The majority of this increase (\$288,886) is due to increased enrollment resulting in increased state funding and federal subsidies. Additional increases include personnel services billed to other schools (\$16,491).
- Operating expenses increased by \$335,897, which represents a 40.3% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$166,848, which represents a 156.6% increase from 2003. This increase is due to the awarding of the private grant mentioned previously and increased state and federal grants.

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

Using this Financial Report

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

Statement of Net Assets

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

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

	<u>2004</u>	<u>2003</u>
Assets		
Cash	\$ 237,725	\$ 89,864
Other Current Assets	2,253	2,810
Security Deposits	12,830	8,811
Capital Assets	<u>39,570</u>	<u>45,892</u>
Total Assets	<u>292,378</u>	<u>147,377</u>
Liabilities		
Current Liabilities	33,529	29,933
Long-Term Liabilities	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>33,529</u>	<u>29,933</u>
Net Assets		
Net assets	<u>258,849</u>	<u>117,444</u>
Total Liabilities and Net Assets	<u>\$ 292,378</u>	<u>\$ 147,377</u>

Net assets increased \$141,405 due primarily to increased enrollment and unexpended grant funds. For assets, cash increased \$147,861; due from other governments decreased \$557; security deposits increased \$4,019 and capital assets decreased \$6,322 from 2003. For liabilities, accounts payable increased \$7,655; due to other governments increased \$418; accrued wages and benefits increased \$693 and deferred revenues decreased \$5,170 from 2003.

ELYRIA COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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, 2004.

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

	<u>2004</u>	<u>2003</u>
Revenues		
Foundation and DPIA Revenues	\$ 980,262	\$ 691,376
Other Operating Revenues	56,195	18,494
Interest	676	754
Federal and State Grants	143,184	105,758
Private Grants and Contributions	<u>129,500</u>	<u>-0-</u>
Total Revenues	<u>1,309,817</u>	<u>816,382</u>
Expenses		
Salaries	447,120	309,220
Fringe Benefits	133,524	87,603
Purchased Services	405,408	304,639
Materials and Supplies	101,686	73,080
Capital Outlay	37,717	20,773
Depreciation	26,163	21,221
Other Operating Expenses	<u>16,794</u>	<u>15,979</u>
Total Expenses	<u>1,168,412</u>	<u>832,515</u>
Net Income/(Loss)	141,405	(16,133)
Net Assets at Beginning of Year	<u>117,444</u>	<u>133,577</u>
Net Assets at End of Year	<u>\$ 258,849</u>	<u>\$ 117,444</u>

Net Assets increased in fiscal year ending June 30, 2004 and decreased in fiscal year ending June 30, 2003. This is due in part to increasing revenues due to increasing enrollment and unexpended funds from a private grant in 2004 and final expenditures relating to federal start up grants in 2003. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations.

The most significant increases in revenues from 2003 to 2004 are Foundation and DPIA (increased \$288,886) due to enrollment increases; Other Operating Revenues (increased \$37,701) due in part to personnel services billed to other schools; Federal and State

ELYRIA COMMUNITY SCHOOL
Management's Discussion and Analysis
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Grants (increased \$37,426) due primarily to enrollment increases and Private Grants and Contributions due to the award of the Walton Family Foundation Grant in the amount of \$129,500.

All areas of expenses increased from 2003 to 2004. Salaries and Fringe Benefits increased (\$183,821) due to additional staffing and annual increases; Purchased services increased (\$100,769) due to additional instructional services, student support services and administrative services. Materials and Supplies increased (\$28,606) due to text book and classroom supplies purchases for additional classes. Capital Outlay increased (\$16,944) due to purchases for classrooms. Depreciation increased (\$4,942) as a direct result additional capital assets purchased during the year. Other Operating Expenses increased (\$815) due to normal increases.

Capital Assets

As of June 30, 2004 the School had capital assets of \$39,570 invested in leasehold improvements, computers and office equipment, and furniture and equipment. This is a \$6,322 decrease from June 30, 2003.

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

	<u>2004</u>	<u>2003</u>
Capital Assets (net of depreciation)		
Leasehold Improvements	\$ 2,642	\$ 3,963
Computers and Office Equipment	25,576	39,129
Furniture, Equipment & Materials	<u>11,352</u>	<u>2,800</u>
 Net Capital Assets	 <u>\$ 39,570</u>	 <u>\$ 45,892</u>

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

Current Financial Issues

Elyria Community School opened in the fall of 2001. In its third year of operations it has grown from 75 students, eight teaching staff members and expenses of \$485,420 to a total of 169 students, thirteen teaching staff members and expenses of \$1,168,412. Subsequent to June 30, 2004 we have been able to purchase our own educational facility to help stabilize our costs. As the School matures to an enrollment of nearly 360 students we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

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

Contacting the School's Financial Management

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

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**Elyria Community School
Lorain County
Statement of Net Assets
As of June 30, 2004**

Assets:

Current Assets:

Cash	\$237,725
Due from Other Governments	9
Due from Other Governments - DPIA	<u>2,244</u>
<i>Total Current Assets</i>	239,978

Non-Current Assets:

Security Deposits	12,830
Capital Assets (Net of Accumulated Depreciation)	<u>39,570</u>
<i>Total Non-Current Assets</i>	<u>52,400</u>
<i>Total Assets</i>	<u><u>\$292,378</u></u>

Liabilities:

Accounts Payable	\$16,227
Due Other Governments	6,589
Accrued Wages and Benefits	1,293
Deferred Revenue	<u>9,420</u>
<i>Total Liabilities</i>	<u>33,529</u>

Net Assets:

Investment in capital assets, net of related debt	\$39,570
Unrestricted	<u>219,279</u>
<i>Total Net Assets</i>	<u><u>\$258,849</u></u>

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

**Elyria Community School
Lorain County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004**

Operating Revenues:

Foundation and DIP Revenues	\$980,262
Other Operating Revenues	<u>56,195</u>
<i>Total Operating Revenues</i>	<u>1,036,457</u>

Operating Expenses:

Salaries	447,120
Fringe Benefits	133,524
Purchased Services	405,408
Materials and Supplies	101,686
Capital Outlay	37,717
Depreciation	26,163
Other Operating Expenses	<u>16,794</u>
<i>Total Operating Expenses</i>	<u>1,168,412</u>
Operating Loss	<u>(131,955)</u>

Non-Operating Revenues:

Interest	676
Federal and State Grants	143,184
Private Grants and Contributions	<u>129,500</u>
<i>Total Non-Operating Revenues</i>	<u>273,360</u>
Net Income	<u>141,405</u>
Net Assets at Beginning of the Year	<u>117,444</u>
Net Assets at End of Year	<u><u>\$258,849</u></u>

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

**Elyria Community School
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$978,018
Cash Payments to Suppliers for Goods and Services	(689,021)
Cash Payments to Employees for Services	(444,462)
Other Operating Revenues	<u>51,025</u>
Net Cash Used for Operating Activities	<u>(104,440)</u>

Cash Flows from Non Capital Financing Activities:

Federal and State Grants	\$145,986
Private Grants and Contributions	<u>129,500</u>
Net Cash Provided by Non Capital Financing Activities	<u>275,486</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Security Deposits	(\$4,019)
Payments for Capital Acquisitions	<u>(19,842)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(23,861)</u>

Cash Flows from Investing Activities:

Interest	<u>676</u>
Net Cash Provided by Investing Activities	<u>676</u>

Net Increase in Cash	147,861
Cash at Beginning of Year	<u>89,864</u>
Cash at End of Year	<u><u>\$237,725</u></u>

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

**Elyria Community School
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

Operating Loss	(\$131,955)
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	26,163
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Changes in Assets and Liabilities:

(Decrease) in Due from Other Governments - DIP	(2,244)
Increase in Accounts Payable	7,655
Increase in Due Other Governments	418
Increase in Accrued Wages and Benefits	693
(Decrease) in Deferred Revenue	(5,170)

Total Adjustments	27,515
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Net Cash Used for Operating Activities	(\$104,440)
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The accompanying notes to the financial statements are an integral part of this statement.

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

I. Description of the School and Reporting Entity

Elyria Community School (ECS) is a nonprofit corporation established 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, ECS obtained 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 ECS' tax-exempt status. ECS, which is part of Ohio's education program, is independent of any school district. ECS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of ECS.

ECS was approved for operation under a contract between the Governing Authority 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 ECS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XII for further discussion of the sponsor services. The Governing Authority formed an Ohio nonprofit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

ECS operates under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. ECS controls one instructional facility staffed by thirteen certificated full time teaching personnel who provide services to 169 students

ECS entered into an agreement with CCS to provide management services for the fiscal year. See footnote XII for additional information regarding the management company. The board members of ECS are also board members of CCS, Old Brooklyn Montessori School, Parma Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students.

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

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

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

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

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

II. Summary of Significant Accounting Policies

The financial statements of ECS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. ECS 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 ECS’ accounting policies are described below.

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

1. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (*e.g.*, revenues) and decreases (*e.g.*, expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The ECS's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the ECS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the ECS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the ECS on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

4. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the school's contract with its sponsor. The contract between ECS and its Sponsor does not prescribe a budgetary process requirement.

5. Due from Other Governments

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

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. ECS does not possess any infrastructure.

Leasehold improvements are also 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.

Depreciation of leasehold improvements, computers and office equipment are computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture, Equipment & Materials	10

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

7. Intergovernmental Revenues

ECS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program (“DPIA”). Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and the expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

ECS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, ECS was awarded \$150,000 during the 2003 fiscal year to offset start-up costs of the School. During the 2004 fiscal year the remaining balance of \$105,000 was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2004 school year totaled \$1,123,445.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, ECS 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 amount of one hundred twenty days. ECS 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.

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

10. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2004, the carrying amount of ECS' deposits totaled \$237,725 and its bank balance was \$240,038. Of the bank balance \$100,000 was covered by the Federal Depository Insurance Corporation and \$140,038 was covered by US Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that US Bank pledge collateral for the deposits of the Elyria Community School in a pool of securities under Section 135.181 of the Ohio Revised Code.

IV. Capital Assets

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

Leasehold Improvements	\$6,604
Computers and Office Equipment	71,697
Furniture, Equipment & Materials	12,960
Less Accumulated Depreciation	<u>(51,691)</u>
Net Capital Assets	<u>\$39,570</u>

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

V. Purchased Services

Purchased Services include the following:

Occupancy Costs	\$188,039
Pupil Support Services	31,923
Instruction	38,279
Administrative	130,286
Staff Development	<u>16,881</u>
Total	<u>\$405,408</u>

VI. Operating Leases

ECS leases its facilities from Horizon Activities Center under a five-year lease agreement. This lease was effective August 1, 2001 and expires July 31, 2006. The lease provides ECS with an option to renew for an additional five year term. The rent payable in the option periods will be adjusted to an amount equal to the change in the Consumer Price Index for Urban Areas as published by the U.S. Department of Labor at the time of the renewal. Monthly lease payments have been fixed at \$7,438 for the first five-year period.

On May 17, 2002, ECS and the Horizon Activities Center amended the lease to include an additional area of the building. The amendment was for a period of one year commencing August 1, 2002 and expired on July 31, 2003. The monthly rent for this additional space was \$1,372.

On May 15, 2003, ECS and the Horizon Activities Center amended the lease to include an additional area of the building. The amendment is for a period of three years commencing August 1, 2003 and expiring on July 31, 2006 and replaces the amendment dated May 17, 2002. ECS may request renewal of the additional space. The monthly rent for this additional space is \$5,392.

Total rents paid to Horizon Activities Center during the fiscal year totaled \$150,605.

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VII. Risk Management

1. Property and Liability Insurance

ECS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, ECS contracted with Cincinnati Insurance Company for all of its insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$300,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

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

3. Employee Medical, Dental, and Life Benefits

ECS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. During the current fiscal year the cost to ECS for medical insurance benefits was \$48,696.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

ECS contributes to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VIII. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System (Continued)

System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and ECS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of ECS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. ECS' required contribution to SERS for the fiscal year ended June 30, 2004, 2003 and 2002 was \$3,186, \$1,643 and \$1,010. For fiscal year 2004, ECS contributions totaling \$393 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

2. State Teachers Retirement System

ECS contributes to the State Teachers Retirement System of Ohio ("STRS"), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment

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— A Community School —
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VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and ECS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

ECS' required contribution to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 was \$53,056, \$37,584 and \$16,041. For fiscal year 2004, ECS contributions totaling a credit balance of \$1,162 were due ECS at year end and are reflected as a reduction in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

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IX. Post-Employment Benefits

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

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For ECS, this amount equaled \$4,081 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For ECS, the amount to fund health care benefits, including surcharge, equaled \$2,886 for fiscal 2004.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health

ELYRIA COMMUNITY SCHOOL
— A Community School —
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

IX. Post-Employment Benefits (Continued)

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

X. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

ECS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

XI. Contingencies

1. Grants

ECS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally 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 ECS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ECS at June 30, 2004.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on ECS is not presently determinable.

ELYRIA COMMUNITY SCHOOL
— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

XI. Contingencies (Continued)

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2004.

XII. Sponsorship and Management Agreement

ECS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by ECS, from the State of Ohio. The total amount due from ECS for the period November 2003 to June 2004 was \$5,622 all of which was paid prior to June 30, 2004.

ECS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2004. The agreement was for a period of one year, effective July 1, 2003. Management fees are calculated as 10% of the 2003/2004 Foundation payment received by ECS, as reported in the Monthly Community School Foundation Report. The total amount due from ECS for the fiscal year ending June 30, 2004 was \$98,026 of which \$37 was due CCS and is included in accounts payable as of June 30, 2004.

XIII. Related Parties

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

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— A Community School —
Lorain County
NOTES TO THE BASIC FINANCIAL STATEMENTS
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XIV. Subsequent Events

On August 23, 2004 ECS purchased the property that it occupies at 300 North Abbe Road in Elyria, Ohio (former Allen Elementary School) for \$1,200,000. ECS has a mortgage loan with National City Bank, a loan guarantee from the Ohio School Facilities Commission, a second mortgage with Horizon Activities Centers and an unsecured loan with Constellation Community Schools.

XV. Change in Accounting Principles

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



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Elyria Community School
Lorain County
300 North Abbe
Elyria, Ohio 44035

We have audited the basic financial statements of the business-type activities of the Elyria Community School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2004 which comprise the School's basic financial statements and have issued our report thereon dated December 17, 2004, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated December 17, 2004.

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www.auditor.state.oh.us

Elyria Community School
Lorain County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

December 17, 2004



**Auditor of State
Betty Montgomery**

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ELYRIA COMMUNITY SCHOOL

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
JANUARY 13, 2005**