CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
LORAIN COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2014

Constellation Schools

"The Right Choice for Parents and a Real Chance for Children!"

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Elyria Community, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

December 31, 2014

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CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
LORAIN COUNTY, OHIO

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INDEPENDENT AUDITOR'S REPORT

December 15, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of Constellation Schools: Elyria Community, Lorain County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the School's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

The discussion and analysis of Constellation Schools: Elyria Community (EC) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the financial performance of EC 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 EC.

Financial Highlights

Key financial highlights for 2014 include the following:

- During 2014 EC purchased the Eastgate School building which had been leased from the Eastgate Company LLC. Financing was obtained from CF Bank and Eastgate Company LLC to purchase and provide a portion of funds for renovations to the building. EC also refinanced the Allen School building with CF Bank by retiring a mortgage held by PNC Bank. The acquisition of the second building and refinancing of the first building positions EC to continue the enrollment growth experienced during the past few years.

- In total, net position increased $295,995, which represents an 18.0% increase from 2013. Increased enrollment provided a significant increase in state foundation revenues, materials fees, federal grants and other student related revenues. This was offset by a reduction in Contributions, service income and other income.

- Total assets increased $1,538,587, which represents a 65.6% increase from 2013. Increases in cash, accounts receivables and capital assets (due to the purchase of the second school building) were slightly offset by decreases in due from other governments and security deposits.

- Liabilities increased $1,242,592, which represents a 176.1% increase from 2013. This is due to increases in accounts payable for building renovations, increases in mortgage notes payable to purchase a second school building and refinance an existing building and an increase in loans payable to purchase instructional technology. A decrease occurred in equipment lease payables during the year.

- Operating revenues increased by $233,109, which represents a 7.1% increase from 2013. Significant enrollment increases generated a large increase in Foundation revenue and other revenues directly related to students. The school also received a full year of Casino tax revenues during the year.

- Expenses increased $301,340 which represents a 9.2% increase from 2013. Increases occurred in most expense categories, and are almost entirely the result of the enrollment increase from 2013.

- Non-operating revenues decreased by $45,636, which represents an 11.5% decrease from 2013. This is due to decreases federal funding and decreased private grants and contributions.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position looks at how well EC has performed financially through June 30, 2014. This statement includes all of the assets, liabilities and net position 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 Position for fiscal years ended June 30, 2014 and 2013 for EC.

	2014	2013	Change	%
Assets				
Cash	$1,362,895	$1,040,454	$322,441	31.0%
Other Current Assets	18,125	29,857	(11,732)	-39.3%
Non-Current Assets	29,677	33,677	(4,000)	-11.9%
Capital Assets	2,474,185	1,242,307	1,231,878	99.2%
Total Assets	3,884,882	2,346,295	1,538,587	65.6%
Liabilities				
Current Liabilities	413,058	161,487	251,571	155.8%
Long-Term Liabilities	1,535,059	544,038	991,021	182.2%
Total Liabilities	1,948,117	705,525	1,242,592	176.1%
Net Position				
Net Investment in Capital Assets	783,252	585,094	198,158	33.9%
Unrestricted	1,153,513	1,055,676	97,837	9.3%
Total Net Position	$1,936,765	$1,640,770	$295,995	18.0%

Net Position increased $295,995, due primarily to a significant enrollment increase during 2014 and improved operations. Cash increased $322,441; accounts receivable increased $1,407, due from other governments decreased $13,139 security deposits decreased $4,000 and net capital assets increased $1,231,878 from 2013. Accounts payable increased $207,650; interest payable decreased $1,313; unearned revenues (previously deferred revenues) increased $2,536, loans payable increased $13,286; capital lease equipment payable decreased $48,014 and mortgage notes payable increased $1,068,447 from 2013.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports operating and non-operating activities for the fiscal year ended June 30, 2014.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for EC for fiscal years ended June 30, 2014 and 2013.

	2014	2013	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$3,356,912	$3,161,377	$195,535	6.2%
Other Operating Revenues	168,930	131,356	37,574	28.6%
Total Operating Revenues	3,525,842	3,292,733	233,109	7.1%
Federal and State Grants	351,011	383,847	(32,836)	-8.6%
Private Grants and Contributions	200	13,000	(12,800)	-98.5%
Total Non-Operating Revenues	351,211	396,847	(45,636)	-11.5%
Total Revenues	3,877,053	3,689,580	187,473	5.1%
Expenses				
Salaries	1,569,629	1,489,269	80,360	5.4%
Fringe Benefits	474,732	418,476	56,256	13.4%
Purchased Services	1,034,982	971,515	63,467	6.5%
Materials and Supplies	135,528	143,063	(7,535)	-5.3%
Capital Outlay	46,750	75,932	(29,182)	-38.4%
Depreciation and Amortization	112,658	100,160	12,498	12.5%
Other Expenses	206,779	81,303	125,476	154.3%
Total Expenses	3,581,058	3,279,718	301,340	9.2%
Changes in Net Position	295,995	409,862	(113,867)	-27.8%
Net Position: Beginning of the Year	1,640,770	1,230,908	409,862	33.3%
Net Position: End of Year	$1,936,765	$1,640,770	$295,995	18.0%

Net Position increased in both fiscal years 2014 and 2013 for a combined net increase. This combined increase is due to increased enrollment. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant changes in revenues from 2013 to 2014 are increases of $181,181 in State Foundation funding due to enrollment increases, decreased federal grants and small state grants to the school in the amount of $32,836 and the collection of a full year of Casino tax revenues for an increase of $14,353. Increases occurred in collections of materials fees; other income with reductions in service revenues, contributions and student food service payments.

Most categories of expense increased from 2013 to 2014 due almost entirely to the increase in enrollment. Salaries and Fringe Benefits increased $136,616 due to staff changes and annual increases. Purchased services increased $63,467 due to increases in student support services, professional development, administrative expenses, facility costs and student activities. Materials and Supplies decreased slightly by $7,535 due to reduced purchases of testing materials and text books. Capital Outlay decreased $29,182 due to classroom technology, furniture and equipment purchase reductions. Depreciation increased $12,498 as a direct result of capital facility purchases during the year. Other Expenses increased $125,476 due to increases in interest, insurance, service charges and facility expenditures related to the purchase of the second school building.

Capital Assets

As of June 30, 2014, EC had $2,474,185 invested in land, construction in progress, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a $1,231,878 increase from June 30, 2013.

The following schedule provides a summary of Capital Assets as of June 30, 2014 and 2013 for EC.

	2014	2013	Change	%
Capital Assets (net of depreciation)				
Land	$342,900	$133,700	$209,200	156.5%
Construction in Progress	208,786	0	208,786	100.0%
Building	1,703,643	834,869	868,774	104.1%
Building Improvements	71,899	44,999	26,900	59.8%
Leasehold Improvements	0	17,060	(17,060)	-100.0%
Computers and Technology	90,558	148,061	(57,503)	-38.8%
Furniture and Equipment	56,399	63,618	(7,219)	-11.3%
Net Capital Assets	$2,474,185	$1,242,307	$1,231,878	99.2%

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

Debt Service

On August 23, 2004 EC purchase the Allen School building for the instructional operations of the school. On November 21, 2013 the Eastgate School building was purchased to operate the schools' middle school grades.

Financing of the first purchase was accomplished through two mortgages. The first mortgage held by PNC Bank with an original face value of $918,000, a term of fifteen years and an interest rate of 7.69% per annum was refinanced in November 2013 with CF Bank. The CF Bank mortgage was issued in the amount of $535,000 for a five year term at 4.75% interest. The note amortizes based on a fifteen year schedule with a balloon payment due at the end of the fifth year. The second mortgage, which was paid off during previous fiscal years, was held by Horizon Activities Center. The outstanding principal balance as of June 30, 2014 on the CF Bank mortgage is $520,829.

On November 21, 2013 EC entered into two mortgage agreements relating to the purchase of the Eastgate School property. A first mortgage is held by CF Bank in the amount of $850,000 with a six year term at 4.75% interest. The CF Bank note provides for an additional $170,000 for major repairs and renovations bringing the total principal balance to $1,020,000. The first year of the note is an acquisition and construction note with principal payments deferred until the second year. Amortization of the note begins in the second year based on a fifteen year schedule with a balloon payment due at the end of the sixth year. A second position mortgage note of $250,000 was obtained from Eastgate Company LLC (the seller) for a period of five years at 4% interest as part of the building purchase. The outstanding principal balance as of June 30, 2014 on the CF Bank mortgage is $849,900 and on the Eastgate Company LLC mortgage is $223,290.

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

Equipment Financing

During fiscal year 2012 EC entered into a lease agreement with Winthrop Resources Corporation for $193,891 worth of technology equipment. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term is for a total of 48 months, carries an interest rate of 7.38% per annum and will expire in January 2016 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2014 on the capital lease equipment payable is $83,628.

During fiscal year 2014, EC secured a four year loan with CF Bank to purchase $15,732 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on October 15, 2017. Equipment purchased with loan proceeds has been capitalized. The outstanding principal value as of June 30, 2014 on the loan payable is $13,286.

Current Financial Issues

EC opened in the fall of 2001. It has grown from 75 students, eight teaching staff members and expenses of $485,420 to a total of 489 students, 39 teaching staff members and expenses of $3,581,058. During this time we have purchased two educational facilities. The second facility was purchased in November 2013 from the previous landlord of the building. This purchase allowed the school to continue expansion at a second location for middle school grades. Enrollment increases continue due to the reputation of the school.

As the nation continues to recover from 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 EC 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, M.A., CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Net Position
As of June 30, 2014

Assets:	
Current Assets:	
Cash	$1,362,895
Due from Other Governments	1,108
Accounts Receivable	17,017
Total Current Assets	1,381,020
Non-Current Assets:	
Security Deposits	29,677
Non-Depreciable Capital Assets	551,686
Capital Assets (Net of Accumulated Depreciation)	1,922,499
Total Non-Current Assets	2,503,862
Total Assets	3,884,882
Liabilities:	
Current Liabilities:	
Accounts Payable	231,926
Interest Payable	2,640
Unearned Revenue	22,618
Loan Payable	3,800
Capital Lease Equipment Payable	51,679
Mortgage Notes Payable	100,395
Total Current Liabilities	413,058
Long Term Liabilities:	
Loan Payable	9,486
Capital Lease Equipment Payable	31,949
Mortgage Notes Payable	1,493,624
Total Long Term Liabilities	1,535,059
Total Liabilities	1,948,117
Net Position:	
Net Investment in Capital Assets	783,252
Unrestricted	1,153,513
Total Net Position	$1,936,765

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

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$3,356,912
Other Operating Revenues	168,930
Total Operating Revenues	3,525,842
Operating Expenses:	
Salaries	1,569,629
Fringe Benefits	474,732
Purchased Services	1,034,982
Materials and Supplies	135,528
Capital Outlay	46,750
Depreciation	112,658
Other Operating Expenses	138,965
Total Operating Expenses	3,513,244
Operating Income	12,598
Non-Operating Revenues & (Expenses):	
Interest Expense	(67,814)
Federal and State Grants	351,011
Private Grants and Contributions	200
Total Non-Operating Revenues & (Expenses)	283,397
Change in Net Position	295,995
Net Position at Beginning of the Year	1,640,770
Net Position at End of Year	$1,936,765

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

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$3,356,912
Cash Payments to Suppliers for Goods and Services	(1,813,528)
Cash Payments to Employees for Services	(1,569,629)
Other Operating Revenues	171,466
Net Cash Provided by Operating Activities	145,221
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants	364,782
Private Grants and Contributions	200
Net Cash Provided by Noncapital Financing Activities	364,982
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(1,156,353)
Proceeds From Loans Payable	15,732
Loan Principal Payments	(2,446)
Loan Interest Payments	(398)
Proceeds From Mortgage Loans	1,635,000
Mortgage Loan Principal Payments	(566,553)
Mortgage Loan Interest Payments	(60,619)
Equipment Lease Principal Payments	(48,014)
Equipment Lease Interest Payments	(8,111)
Decrease in Security Deposit	4,000
Net Cash Used for Capital and Related Financing Activities	(187,762)
Net Increase in Cash	322,441
Cash at Beginning of Year	1,040,454
Cash at End of Year	$1,362,895

Non Cash Transaction: At June 30, 2014 the school purchased $220,007 in capital assets on account.

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

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(Continued)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$12,598
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	112,658
Abandonment of Leasehold Improvements	14,807
Capital Asset Returned for Refund	17,017
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(633)
(Increase) in Accounts Receivable	(1,407)
(Decrease) in Accounts Payable	(12,355)
Increase in Unearned Revenue	2,536
Total Adjustments	132,623
Net Cash Provided by Operating Activities	$145,221

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

I. Description of the School and Reporting Entity

Constellation Schools: Elyria Community (EC) is a nonprofit corporation established on August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On November 7, 2001, EC received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred which may adversely affect the tax-exempt status of EC. EC, which is part of Ohio's education program, is independent of any school district. EC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of EC.

EC was approved for operation under a contract between the Governing Authority of EC 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 EC entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2019. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XV for further discussion of the sponsor services.

EC entered into an agreement with Constellation Schools (CS) to provide legal, financial, business and educational management services for the fiscal year. See Note XV for further discussion of this management agreement.

EC 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 EC instructional facility staffed by thirty-nine certificated full time teaching personnel and twelve support staff who provide services to 489 students. During 2014, the board members for EC also serve as the board for Constellation Schools: Old Brooklyn Community Elementary, Constellation Schools: Parma Community and Constellation Schools: Lorain Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of EC 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. The more significant of EC'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 Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. EC 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 EC 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 EC must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to EC on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Change in Accounting Principles

For 2014, EC has implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities".* GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources,* such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of EC.

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

Monies due EC for the year ended June 30, 2014 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

7. Capital Assets, Mortgage Fees and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of $1,000 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 except for land and construction in progress. Depreciation of buildings, building improvements, technology, software, 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 or less. Estimated useful lives are as follows:

Capital Asset Classification	Years
Building	40
Building Improvements	10 to 40
Technology & Software	3 to 5
Furniture and Equipment	10

8. Intergovernmental Revenues

EC currently participates in the State Foundation Program, the State Poverty Based Assistance Program and Casino Tax Distribution. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. EC also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, Race to the Top 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 2014 school year totaled $3,707,923.

9. Private Grants and Contributions

EC received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2014 school year by EC totaled $200.

10. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, EC 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. EC will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

11. Use of Estimates

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

12. Unearned Revenue

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

III. Deposits

At fiscal year end June 30, 2014, the carrying amount of EC's deposits totaled $1,362,895 and its bank balance was $1,399,978. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2014, $1,149,978 of the bank balance was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

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

IV. Purchased Services

Purchased Services include the following:

Instruction	$76,057
Pupil Support Services	145,409
Staff Development & Support	64,795
Administrative	507,943
Occupancy Costs	148,416
Food Services	89,731
Student Activities	2,631
Total Purchased Services	$1,034,982

V. Capital Assets

A summary of capital assets at June 30, 2014 follows:

	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
Capital Assets Not Being Depreciated:				
Land	$133,700	$209,200	$0	$342,900
Construction in Progress	0	208,786	0	208,786
Total Capital Assets Not Being Depreciated:	133,700	417,986	0	551,686
Capital Assets Being Depreciated:				
Building	1,071,493	909,295	0	1,980,788
Building Improvements	66,683	31,347	0	98,030
Leasehold Improvements	22,241	0	(22,241)	0
Technology and Software	252,825	15,732	(17,017)	251,540
Furniture and Equipment	98,670	2,000	0	100,670
Total Capital Assets Being Depreciated	1,511,912	958,374	(39,258)	2,431,028
Less Accumulated Depreciated:				
Building	(236,624)	(40,521)	0	(277,145)
Building Improvements	(21,684)	(4,447)	0	(26,131)
Leasehold Improvements	(5,181)	(2,253)	7,434	0
Technology and Software	(104,764)	(56,218)	0	(160,982)
Furniture and Equipment	(35,052)	(9,219)	0	(44,271)
Total Accumulated Depreciation	(403,305)	(112,658)	7,434	(508,529)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	1,108,607	845,716	(31,824)	1,922,499
Total Capital Assets, Net of Accumulated Depreciation	$1,242,307	$1,263,702	($31,824)	$2,474,185

VI. Loan Payable

During fiscal year 2014, EC secured a four year loan with CF Bank to purchase $15,732 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on October 15, 2017. Equipment purchased with loan proceeds has been capitalized. Principal payments during fiscal year 2014 totaled $2,446 and interest paid totaled $398. Future minimum loan payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2015	$3,800	$467	$4,267
2016	3,956	311	4,267
2017	4,120	147	4,267
2018	1,410	12	1,422
Total	$13,286	$937	$14,223

VII. Capital Equipment Lease Payable

During fiscal year 2012, EC entered into a four year lease for technology equipment. This lease meets the criteria of a capital lease as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

Assets of technology equipment totaling $193,891 have been capitalized. This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2014 totaled $48,014 and interest paid totaled $8,111. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2014	$51,679	$4,446	$56,125
2015	31,949	792	32,741
Total	$83,628	$5,238	$88,866

VIII. Allen School Purchase

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

IX. Eastgate School Purchase

On November 21, 2013, EC purchased the former Eastgate School located At 336 South Logan Road, Elyria, from the previous landlord Eastgate Company LLC to house the upper level grades for the school. The purchase price of $1,100,000, along with other purchase costs totaling $18,495, have been capitalized and will be depreciated over a forty year period. All operations of the schools' middle school grade levels are located at this site.

X. Mortgage Notes Payable

On August 23, 2004, EC entered into two mortgage agreements relating to the purchase of the property at 300 North Abbe Road (see note VII). A first mortgage note in the amount of $918,000 is held by PNC Bank, National Association (formerly National City Bank). The note is for a term of ten years with an interest rate of 7.69 percent per annum and a balloon payment due at the end of the term in fiscal year 2015. The Ohio School Facilities Commission has guaranteed the first mortgage up to $780,300. A second mortgage note, which matured during fiscal year 2012, in the amount of $255,000 was held by Horizon Activities Center and was subordinate to the first mortgage. The note was for a term of seven years with an interest rate of 7.00 percent per annum.

The PNC Bank note was refinanced in November 2013 with CF Bank. A first position mortgage note is held by CF Bank in the amount of $535,000 for a five year term at 4.75% interest. The note amortizes based on a fifteen year schedule with a balloon payment due at the end of the fifth year.

On November 21, 2013 EC entered into two mortgage agreements relating to the purchase of the Eastgate School property (Note IX) for $1,100,000. A first position mortgage note is held by CF Bank in the amount of $850,000 with a six year term at 4.75% interest. The CF Bank note provides for an additional $170,000 (which was drawn down in early July 2014) for major repairs and renovations bringing the total principal balance to $1,020,000 (See Note XVI). The first year of the note is an acquisition and construction note with principal payments deferred until the second year. The note begins to amortize in the second year based on a fifteen year schedule with a balloon payment due at the end of the sixth year. A second position mortgage note of $250,000 was obtained from Eastgate Company LLC (the seller) for a period of five years at 4% interest as part of the building purchase.

During fiscal year 2014 principal was reduced by $67,420 for regular mortgage payments and $499,133 to payoff PNC from refinance proceeds. Interest payments totaled $60,619 during the year. As of June 30, 2014 the outstanding principal balances are $520,829 for the CF Bank loan for the Allen School building; $849,900 for the CF Bank loan for the Eastgate School building; and $223,290 for the Eastgate LLC loan for the Eastgate School building. Interest payable totaling $2,640 has been recorded as a current liability as of June 30, 2014. Principal and interest due on the outstanding mortgage notes are as follows:

CF Bank - Allen School Building

Year	Principal	Interest	Total
2015	$25,639	$24,510	$50,149
2016	26,837	23,311	50,148
2017	28,223	21,926	50,149
2018	29,613	20,537	50,150
2019	410,517	8,179	418,696
Total	$520,829	$98,463	$619,292

Eastgate School Building

	CF Bank			Eastgate Company LLC		
Year	Principal	Interest	Total	Principal	Interest	Total
2015	$27,588	$43,921	$71,509	$47,168	$8,075	$55,243
2016	48,783	46,856	95,639	49,074	6,169	55,243
2017	51,313	44,326	95,639	51,089	4,154	55,243
2018	53,840	41,799	95,639	53,171	2,072	55,243
2019	56,491	39,148	95,639	22,788	229	23,017
2020	611,885	15,590	627,475	0	0	0
Total	$849,900	$231,640	$1,081,540	$223,290	$20,699	$243,989

XI. Risk Management

1. Property and Liability Insurance

EC 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 2014, EC contracted with Traveler's Property Casualty

Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile 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

EC makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been seven claims filed by EC employees with the Ohio Worker's Compensation System between January 1, 2010 and June 30, 2014. The total payments made for these claims have been $5,542. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of EC as June 30, 2014.

3. Employee Medical, Dental, Vision and Life Benefits

EC provides medical, dental, vision and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by EC for fiscal year 2014 are $212,311.

XII. Defined Benefit Pension Plans

1. State Teachers Retirement System

EC 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 31^{st} 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 14% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

EC's required contributions for pension obligations for the fiscal years ended June 30, 2014, 2013 and 2012 were $176,090, $175,300 and $142,764 respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

EC 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 on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and EC 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, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. EC's contributions to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were $30,113, $19,713 and $18,268, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

XIII. 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, 2014, 2013 and 2012 EC's contributions to post-employment health care were $13,545, $13,485 and $10,982, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

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 2014 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income. 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 2014 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2014, 2013 and 2012 EC contributions to Medicare Part B were $1,635, $1,042 and $1,011, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

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, 2014 the health care allocation is 0.14%. 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 2014, the minimum compensation level was established at $20,525. 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, 2014, 2013 and 2012 EC contributions to the Health Care Plan, including the surcharge were $4,114, $2,689 and $3,916, respectively; 7.32% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012. $3,813 representing the unpaid surcharge due for fiscal year 2014 is recorded as a liability within the respective funds.

XIV. Contingencies

1. Grants

EC 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 EC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of EC at June 30, 2014.

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. Adjustments to the state funding received during fiscal year 2014 are immaterial and are not reflected in the 2014 financial statements but will be included in the financial activity for fiscal year 2015.

XV. Sponsorship and Management Agreements

EC entered into an agreement with the ECS of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2019. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2014 Foundation payments received by EC, from the State of Ohio. The total amount due from EC for fiscal year 2014 was $49,323 all of which was paid prior to June 30, 2014.

EC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2014. The agreement was for a period of one year, effective July 1, 2010. Management fees are calculated as 6.25% of the Fiscal Year 2014 Foundation payments received by EC from the State of Ohio plus a fixed fee of $202,125. The total fee cannot exceed twice the fixed fee. The total amount due from EC for the fiscal year ending June 30, 2014 was $404,250 all of which was paid prior to June 30, 2014.

XVI. Subsequent Event

In February of 2014 EC entered into a group leasing agreement to lease technology equipment. As of December 15, 2014 EC has drawn $40,459 as a part of the lease (there were no draws prior to July 1, 2014). The lease is scheduled to close to purchases during the month of December after which it will convert to a 48 month lease with an approximate interest rate of 2.15%.

On July 11, 2014 EC drew down the remaining $170,000 on the mortgage held by CF Bank. These monies were used to pay for a portion of capital improvements made to the Eastgate School building. See note X for further information.

December 15, 2014

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

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

We have audited, in accordance with the 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, the financial statements of the Constellation Schools: Elyria Community, Lorain County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Dave Yost • Auditor of State

ELYRIA COMMUNITY

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 08, 2015

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