



**LORAIN COMMUNITY MIDDLE SCHOOL  
LORAIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**LORAIN COMMUNITY MIDDLE SCHOOL  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Lorain Community Middle School  
Lorain County  
300 Broadway  
Lorain, Ohio 44052

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Lorain Community Middle School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain Community Middle School, Lorain County, Ohio, as of June 30, 2006 and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2007, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA  
Auditor of State

March 22, 2007

**LORAIN COMMUNITY MIDDLE SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

The discussion and analysis of Lorain Community Middle School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. 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 2006 include the following:

- The school began operations in January 2006, during the 2005-2006 school year by enrolling grades 5 through 8 from Lorain Community School (LCS). The middle school subleased space and utilized specialized staff from LCS. The school received Federal Start-Up grant funding in the previous year in anticipation of the school opening in the fall of 2004.
- In total, net assets increased \$65,773 from 2005. This increase is due to opening the school with a full enrollment and by sharing space and personnel with LCS. Enrollment for the 2006-2007 school year increased significantly and will result in the school having a substantially improved financial position at the end of the year.
- Total assets increased \$154,403 from 2005. This increase is due to an increase in cash, other current assets and net capital assets. The cash balance increase of \$147,257 is due to the full enrollment, sharing of space and personnel with LCS and a significant increase in accounts payable. The increase in other current assets is due to grants and other receivables. The increase in capital assets is due to purchases of computers and equipment.
- Liabilities increased \$88,630 from 2005. Accounts payable increased by \$86,364, due other governments increased \$66 and deferred revenues increased \$2,170.
- Operating revenues were \$244,909. The majority of the revenues (\$238,884) are from the state foundation and Poverty Based Assistance program. Additional funding comes from materials fees and miscellaneous sources.
- Operating expenses were \$254,136. The largest expenses are due to staffing (\$83,050) and services purchased by the school (\$105,453) such as building rent, utilities and student support services provided by non-employee personnel (e.g. speech, school nurse, etc.).
- Non-operating revenues were \$75,000. This is from Federal Start-Up Grants.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
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, 2006. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash	\$ 147,347	\$ 90
Other Current Assets	2,352	-0-
Capital Assets	<u>24,860</u>	<u>20,066</u>
Total Assets	<u>174,559</u>	<u>20,156</u>
<b>Liabilities</b>		
Current Liabilities	<u>93,730</u>	<u>5,100</u>
Total Liabilities	<u>93,730</u>	<u>5,100</u>
<b>Net Assets</b>		
Net Assets	<u>80,829</u>	<u>15,056</u>
Total Liabilities and Net Assets	<u>\$ 174,559</u>	<u>\$ 20,156</u>

Net Assets decreased \$65,773, due primarily to sharing space and personnel with Lorain Community School. For assets, cash increased \$147,257; due from other governments increased \$2,202; accounts receivable increased \$150 and net capital assets increased \$4,794 from 2005. For liabilities, accounts payable increased \$86,364; due to other governments increased \$66 and deferred revenues increased \$2,170 from 2005.



**LORAIN COMMUNITY MIDDLE SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
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, 2006.

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, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
Foundation and Assistance Revenues	\$ 238,884	\$ -0-
Other Operating Revenues	<u>6,025</u>	<u>-0-</u>
Operating Revenues	<u>244,909</u>	<u>-0-</u>
Federal and State Grants	<u>75,000</u>	<u>125,000</u>
Non-Operating Revenues	<u>75,000</u>	<u>125,000</u>
Total Revenues	<u>319,909</u>	<u>125,000</u>
 <b>Expenses</b>		
Salaries	62,193	3,560
Fringe Benefits	20,857	646
Purchased Services	105,453	38,412
Materials and Supplies	39,611	94,725
Capital Outlay	19,802	5,853
Depreciation	3,344	-0-
Other Operating Expenses	<u>2,876</u>	<u>-0-</u>
Total Expenses	<u>254,136</u>	<u>143,196</u>
<b>Net Income</b>	65,773	(18,196)
Net Assets at Beginning of Year	<u>15,056</u>	<u>33,252</u>
<b>Net Assets at End of Year</b>	<u>\$ 80,829</u>	<u>\$ 15,056</u>

Since the school did not open and operate during 2005, despite attempts, a comparative analysis between 2006 and 2005 has not been made for this statement.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

**Capital Assets**

As of June 30, 2006 the School had \$24,860 invested in computers and office equipment, net of depreciation. This is a \$4,794 increase over June 30, 2005.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2006 and 2005.

	<b>2006</b>	<b>2005</b>
<b>Capital Assets (net of depreciation)</b>		
Computers and Office Equipment	<u>\$ 24,860</u>	<u>\$ 20,066</u>
Net Capital Assets	<u>\$ 24,860</u>	<u>\$ 20,066</u>

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

**Current Financial Issues**

Lorain Community Middle School opened in January of 2006. In its initial year of operation it had 57 students, four teaching staff members and expenses of \$254,136. For fiscal year 2007 the school is budgeted for a total of 98 students, nine teaching staff members and expenses of \$904,017. The increase in enrollment for the 2006-2007 school year significantly improves the financial position of the school and will result in a positive net asset balance at June 30, 2006. As the School matures to full enrollment 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.

**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 [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com).

**Lorain Community Middle School**  
**Lorain County**  
**Statement of Net Assets**  
**As of June 30, 2006**

**Assets:**

**Current Assets:**

Cash	\$147,347
Due from Other Governments	2,202
Accounts Receivable	<u>150</u>
<i>Total Current Assets</i>	149,699

**Non-Current Assets:**

Capital Assets (Net of Accumulated Depreciation)	<u>24,860</u>
<i>Total Non-Current Assets</i>	24,860

<i>Total Assets</i>	<u>\$174,559</u>
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**Liabilities:**

**Current Liabilities:**

Accounts Payable	\$91,494
Due Other Governments	66
Deferred Revenue	<u>2,170</u>
<i>Total Current Liabilities</i>	<u>93,730</u>

**Net Assets:**

Investment in capital assets, net of related debt	24,860
Unrestricted	<u>55,969</u>
<i>Total Net Assets</i>	<u><u>\$80,829</u></u>

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

**Lorain Community Middle School  
Lorain County  
Statement of Revenues, Expenses and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2006**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$238,884
Other Operating Revenues	<u>6,025</u>
<i>Total Operating Revenues</i>	<u>244,909</u>

**Operating Expenses:**

Salaries	62,193
Fringe Benefits	20,857
Purchased Services	105,453
Materials and Supplies	39,611
Capital Outlay	19,802
Depreciation	3,344
Other Operating Expenses	<u>2,876</u>
<i>Total Operating Expenses</i>	<u>254,136</u>
Operating Loss	<u>(9,227)</u>

**Non-Operating Revenues:**

Federal and State Grants	<u>75,000</u>
<i>Total Non-Operating Revenues</i>	<u>75,000</u>
Net Income	<u>65,773</u>
Net Assets at Beginning of the Year	<u>15,056</u>
Net Assets at End of Year	<u><u>\$80,829</u></u>

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

**Lorain Community Middle School**  
**Lorain County**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$238,950
Cash Payments to Suppliers for Goods and Services	(104,407)
Cash Payments to Employees for Services	(62,193)
Other Operating Revenues	<u>8,045</u>
Net Cash Provided by Operating Activities	<u>80,395</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	<u>75,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>75,000</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	<u>(8,138)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(8,138)</u>

Net Increase in Cash	147,257
Cash at Beginning of Year	<u>90</u>
Cash at End of Year	<u><u>\$147,347</u></u>

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

**Lorain Community Middle School**  
**Lorain County**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**  
**(Continued)**

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

Operating Loss	(\$9,227)
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**Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:**

Depreciation	3,344
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(2,202)
(Increase) in Accounts Receivable	(150)
Increase in Accounts Payable	86,394
Increase in Due Other Governments	66
Increase in Deferred Revenue	2,170
Total Adjustments	89,622
Net Cash Provided by Operating Activities	\$80,395

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

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**I. Description of the School and Reporting Entity**

**Lorain Community Middle School (LCMS)**, originally Mansfield Academy for Gifted Students (MAGS), is a nonprofit corporation established on December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On March 28, 2006, LCMS was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect LCMS' tax-exempt status. LCMS, which is part of Ohio's education program, is independent of any school district. LCMS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of LCMS.

LCMS (as MAGS) was approved for operation under a contract dated January 20, 2004 between the Governing Authority of LCMS (as MAGS) and the Lucas County Educational Service Center (LCESC) (the Sponsor). On July 22, 2005 LCMS (as MAGS) entered into a contract with Buckeye Community Hope Foundation (BHCF) to have BHCF replace LCESC as their sponsor. Under the terms of the contract BHCF 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 non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (CCS). On September 13, 2005 the Board of Trustees changed the name of Mansfield Academy for Gifted Students to Lorain Community Middle School and the contract was subsequently moved to Lorain with Sponsor approval. The school began operations on January 2, 2006.

LCMS 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. LCMS controls one instructional facility staffed by four certificated full time teaching personnel who provide services to 57 students.

LCMS 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 LCMS are also board members of CCS until June 15, 2006 at which time a separate CCS Board was formed. LCMS Board members are also Board members of Old Brooklyn Community School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Greater Cleveland Academy for Gifted Students, Lorain Academy for Gifted Students, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**II. Summary of Significant Accounting Policies**

The financial statements of LCMS 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. LCMS 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 LCMS' accounting policies are described below.

**1. Basis of Presentation**

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

**2. Measurement Focus and Basis of Accounting**

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

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



**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**II. Summary of Significant Accounting Policies (Continued)**

**2. Measurement Focus and Basis of Accounting (Continued)**

For fiscal year 2006, LCMS has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries," GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section," and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for insurance recoveries.

GASB Statement No. 44 is to improve the understandability and usefulness of the information that State and local governments present as supplementary information in the statistical section.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statements Nos. 42 and 47 did not materially affect the presentation of the financial statements for the school and GASB Statement No. 44 does not apply to the school.

**3. Cash**

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

**4. Budgetary Process**

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

**5. Due from Other Governments and Accounts Receivable**

Moneys due LCMS for the year ended June 30, 2006 are recorded as Due from Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**II. Summary of Significant Accounting Policies (Continued)**

**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. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. 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:

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

**7. Intergovernmental Revenues**

LCMS currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

LCMS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, MDCS was awarded \$150,000 in fiscal year 2006 to offset start-up costs of the School. During fiscal year 2006, \$75,000 from the award 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 2006 school year totaled \$313,884.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**II. Summary of Significant Accounting Policies (Continued)**

**8. Compensated Absences**

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

**9. 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.

**10. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for LCMS 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, 2006, the carrying amount of LCMS' deposits totaled \$147,347 and its bank balance was \$177,376. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, \$77,376 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 of the bank balance was covered by the Federal Depository Insurance Corporation.

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

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

**IV. Capital Assets**

A summary of capital assets at June 30, 2006 follows:

	<u>Balance</u> <u>6/30/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/06</u>
Capital Assets Being Depreciated:				
Computers & Office Equip	<u>\$20,066</u>	<u>\$8,138</u>	<u>\$0</u>	<u>\$28,204</u>
Total Capital Assets Being Depreciated:	<u>20,066</u>	<u>8,138</u>	<u>0</u>	<u>28,204</u>
Less Accumulated Depreciation:				
Computers & Office Equip	<u>0</u>	<u>(3,344)</u>	<u>0</u>	<u>(3,344)</u>
Total Accumulated Depreciation:	<u>0</u>	<u>(3,344)</u>	<u>0</u>	<u>(3,344)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$20,066</u></u>	<u><u>\$4,794</u></u>	<u><u>\$0</u></u>	<u><u>\$24,860</u></u>

**V. Purchased Services**

Purchased Services include the following:

Instruction	\$34,312
Pupil Support Services	13,402
Staff Development & Support	52
Administrative	33,687
Occupancy Costs	<u>24,000</u>
Total	<u>\$105,453</u>

**VI. Operating Leases**

LCMS sub-leases its facilities from Lorain Community School per an agreement effective January 1, 2005 and expiring June 30, 2006. Monthly payments under the terms of the lease are \$4,000. During fiscal year 2006 rents totaled \$24,000. For fiscal year 2007 LCMS entered into a direct lease agreement with City Center LLC, the building landlord.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**VII. Risk Management**

**1. Property and Liability Insurance**

LCMS 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 2006, LCMS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$2,000,000 single occurrence limit and \$4,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 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**

LCMS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2006 there have been no claims filed by LCMS employees with the Ohio Worker's Compensation System.

**3. Employee Medical, Dental, and Vision Benefits**

LCMS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to LCMS for insurance benefits was \$9,892.

**VIII. Defined Benefit Pension Plans**

**1. State Teachers Retirement System**

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

**LORAIN COMMUNITY MIDDLE SCHOOL**  
**— A Community School —**  
**LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**VIII. Defined Benefit Pension Plans (Continued)**

**2. State Teachers Retirement System (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary. LCMS was required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

LCMS' required contribution for pension obligations to STRS Ohio for the fiscal year ended June 30, 2006 was \$8,085. For fiscal year 2006, LCMS contributions totaling \$2,202 were overpaid at year end and are reflected in Due from Other Governments in the accompanying financial statements. All other required contributions have been made.

**LORAIN COMMUNITY MIDDLE SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**IX. Post-Employment Benefits**

LCMS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For LCMS, this amount equaled \$622 during fiscal 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

**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...".

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

**LORAIN COMMUNITY MIDDLE SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**XI. Contingencies**

**1. Grants**

LCMS 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 LCMS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LCMS at June 30, 2006.

**2. Litigation**

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on LCMS is not presently determinable.

**3. Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report adjustments to the state funding received during fiscal year 2006 are reflected in the financial statements.

**XII. Sponsorship and Management Agreement**

LCMS entered into an agreement with Buckeye Community Hope Foundation (BHCF) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 2% of state funds received by LCMS, from the State of Ohio. The total amount due from LCMS for fiscal year 2006 was \$4,779 all of which was paid prior to June 30, 2006.

LCMS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2006. The agreement was for a period of one year, effective July 1, 2005. Management fees are calculated as 11% of the Fiscal Year 2006 Foundation payment received by LCMS, as reported in the Monthly Community School Foundation Report. The total amount due from LCMS for the fiscal year ending June 30, 2006 was \$26,277 of which \$95 was outstanding as of June 30, 2006 and has been included in accounts payable.



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**NOTES TO THE FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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**XII. Sponsorship and Management Agreement (Continued)**

In addition LCMS is participating in a payroll bonus reserve established through CCS. Payroll bonus reserve fees are calculated as 1% of the Fiscal Year 2006 Foundation payment received by LCMS, as reported in the Monthly Community School Foundation Report. The total amount due from LCMS for the fiscal year ending June 30, 2006 was \$2,389 of which \$1 was overpaid prior to June 30, 2006 and has been credited to the next fiscal year.

**XIII. Related Parties**

The members of the LCMS Board of Trustees were also members of Constellation Community Schools until June 15, 2006 at which time a separate CCS Board was formed. LCMS contracts with CCS for legal, financial and business management services.

LCMS Board members are also Board members of Old Brooklyn Community School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Greater Cleveland Academy for Gifted Students, Lorain Academy for Gifted Students, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

**XIV. Net Assets**

As of the fiscal year ended June 30, 2005, LCMS had Net Assets in the amount of \$15,056 which was comprised of the following:

State and Federal Grant Funds	\$200,000
Less total start up expenses incurred for the periods ending June 30, 2005	<u>(184,944)</u>
Net Assets as of June 30, 2005	<u>\$ 15,056</u>

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lorain Community Middle School  
Lorain County  
300 Broadway  
Lorain, Ohio 44052

To the Board of Trustees:

We have audited the basic financial statements of the Lorain Community Middle School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated March 22, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated March 22, 2007, we reported another matter related to noncompliance we deemed immaterial.

Lorain Community Middle School  
Lorain County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA  
Auditor of State

March 22, 2007



**Mary Taylor, CPA**  
Auditor of State

LORAIN COMMUNITY MIDDLE 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  
MAY 17, 2007