ELYRIA COMMUNITY SCHOOL
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

ELYRIA COMMUNITY SCHOOL
LORAIN COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Elyria Community School
Lorain County
300 North Abbe Road
Elyria, Ohio 44035

To the Board of Trustees:

We have audited the accompanying basic financial statements of Elyria Community School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 Elyria Community School, Lorain County, Ohio, as of June 30, 2007, 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 February 7, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 7, 2008

The discussion and analysis of Elyria Community School's (ECS) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the financial performance of ECS 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 ECS.

Financial Highlights

Key financial highlights for 2007 include the following:

- In total, net assets decreased $23,789, which represents a 7.0% decrease from 2006. Although enrollment increased from 2006 to 2007 enrollment was less than projected. Purchases were made and staff was hired based on these projections. The reduction in net assets for the year is the result of maintaining the staff and programs as originally anticipated. For fiscal year 2008 the budget reflects the changed enrollment.

- Total assets decreased $101,051, which represents a 6.9% decrease from 2006. This is due to a decrease in cash of $76,693, an increase in other current assets of $824 and a decrease in net capital assets of $25,182. The cash balance decrease is due to the enrollment shortfall compared to the budget.

- Liabilities decreased $77,262, which represents a 6.9% decrease from 2006. Mortgages payable decreased by $70,585 and current liabilities decreased by a total of $6,677.

- Operating revenues increased by $156,090, which represents a 10.3% increase from 2006. This is a direct result of increasing enrollment which accounts for $108,642 of the increase. Most of the remaining $47,448 is from the sale and subsequent leaseback of capital equipment and from initiating a lunch program in 2007.

- Expenses increased by $371,259 which represents a 24.5% increase from 2006. Operating expense increases are due to services provided for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.

- Non-operating revenues increased by $70,853, which represents a 56.7% increase from 2006. This increase is due mostly to increased Federal and State Grants (including lunch program) in the amount of $66,956 as well as increases in interest earned and private grants.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets looks at how well ECS has performed financially through June 30, 2007. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Assets for fiscal years ended June 30, 2007 and 2006 for ECS.

	2007	2006
Assets		
Cash	$ 146,092	$ 222,785
Other Current Assets	9,282	8,458
Capital Assets	1,204,522	1,229,704
Total Assets	1,359,896	1,460,947
Liabilities		
Current Liabilities	50,642	57,319
Long-Term Liabilities	992,397	1,062,982
Total Liabilities	1,043,039	1,120,301
Net Assets		
Investment in capital assets net of related debt	212,125	166,722
Unrestricted	104,732	173,924
Total Net Assets	$ 316,857	$ 340,646

Net Assets decreased $23,789, due primarily to increasing staff and programs during 2007 even though enrollment growth was less than expected. For assets, cash decreased $76,693; due from other governments increased $671; accounts receivable decreased $126, prepaid employee withholding increased $27 and net capital assets decreased $25,182 from 2006. For liabilities, accounts payable decreased $7,282; due to other governments decreased $9,429; accrued wages and benefits increased $3,508; interest payable decreased $625; deferred revenues increased $7,822 and mortgage notes payable decreased $70,585 from 2006.

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, 2007.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for ECS for fiscal years ended June 30, 2007 and 2006.

	2007	2006
Revenues		
Foundation and Poverty Based Assistance Revenues	$1,577,970	$1,469,328
Other Operating Revenues	91,749	44,301
Operating Revenues	1,669,719	1,513,629
Interest	3,794	397
Federal and State Grants	191,413	124,457
Private Grants and Contributions	500	0
Non-Operating Revenues	195,707	124,854
Total Revenues	1,865,426	1,638,483
Expenses		
Salaries	795,769	585,361
Fringe Benefits	199,431	166,335
Purchased Services	561,207	458,053
Materials and Supplies	164,395	118,287
Capital Outlay	12,558	20,446
Depreciation	54,665	48,038
Other Operating Expenses	101,190	121,436
Total Expenses	1,889,215	1,517,956
Net Loss	(23,789)	120,527
Net Assets at Beginning of Year	340,646	220,119
Net Assets at End of Year	$ 316,857	$ 340,646

Net Assets decreased in fiscal year 2007 and increased in fiscal year 2006 for a combined net increase. This combined increase is due primarily to increasing revenues from increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant increases in revenues from 2006 to 2007 are Foundation and Poverty Based Assistance funds which increased $108,642 due to enrollment increases and increases in formula amounts. Federal and State Grants increased $66,956 due mainly to increased federal grant allocations and the initiation of a lunch program. Financing of capital equipment, increases in interest income and increases in private grants account for the remaining increases.

Most categories of expense increased from 2006 to 2007. Salaries and Fringe Benefits increased $243,504 due to additional staffing, annual increases and hiring staff previously obtained as a purchased service. Purchased services increased $103,154 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies increased $46,108 and Capital Outlay decreased $7,888 due to purchasing text books, classroom supplies, furniture and equipment for classroom expansion. Depreciation increased $6,627 as a direct result of additional purchases of furniture and equipment. Other Operating Expenses decreased $20,246 due to reductions in mortgage debt service, insurance premiums and property taxes.

Capital Assets

As of June 30, 2007, ECS had $1,204,522 invested in computers and office equipment, furniture and equipment, land, building and mortgage loan fees, and building improvements, net of depreciation. This is a $25,182 decrease over June 30, 2006.

The following schedule provides a summary of Capital Assets as of June 30, 2007 and 2006 for ECS.

	2007	2006
Capital Assets (net of depreciation)		
Land	$ 133,700	$ 133,700
Building and Mortgage Loan Fees	995,593	1,022,380
Building Improvements	29,442	31,531
Computers and Office Equipment	20,977	22,917
Furniture, Equipment & Materials	24,810	19,176
Net Fixed Assets	$1,204,522	$1,229,704

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

Debt Service

On August 23, 2004 the ECS purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by National City Bank with a face value of $918,000 for a term of fifteen years and an interest rate of 7.69% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to $780,300. The second mortgage is held by Horizon Activities Center with a face value of $255,000 for a term of seven years and an interest rate of 7.00% per annum. The outstanding principal balances as of June 30, 2007 are $823,045 and $169,352, respectively.

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

Current Financial Issues

ECS opened in the fall of 2001. In its sixth year of operations it has grown from 75 students, eight teaching staff members and expenses of $485,420 to a total of 249 students, 28 teaching staff members and expenses of $1,889,215. During this time we have purchased our own educational facility. As ECS 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 finances for ECS and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer, by mail at Constellation Schools, 5983 West 54th Street, Parma, Ohio 44129; by e-mail at babb.thomas@constellationschools.com; by calling 440.845.7688; or by faxing 440.845.7689.

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Elyria Community School
Lorain County
Statement of Net Assets
As of June 30, 2007

Assets:	
Current Assets:	
Cash	$146,092
Due from Other Governments	8,829
Accounts Receivable	426
Prepaid Employee Withholding	27
Total Current Assets	155,374
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	1,204,522
Total Assets	1,359,896
Liabilities:	
Current Liabilities:	
Accounts Payable	19,998
Accrued Wages and Benefits	8,591
Interest Payable	6,438
Deferred Revenue	15,615
Total Current Liabilities	50,642
Long Term Liabilities:	
Mortgage Notes Payable	992,397
Total Liabilities	1,043,039
Net Assets:	
Investment in capital assets, net of related debt	212,125
Unrestricted	104,732
Total Net Assets	$316,857

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

Elyria Community School
Lorain County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Year Ended June 30, 2007

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$1,577,970
Other Operating Revenues	91,749
Total Operating Revenues	1,669,719
Operating Expenses:	
Salaries	795,769
Fringe Benefits	199,431
Purchased Services	561,207
Materials and Supplies	164,395
Capital Outlay	12,558
Depreciation	54,665
Other Operating Expenses	101,190
Total Operating Expenses	1,889,215
Operating Loss	(219,496)
Non-Operating Revenues:	
Interest	3,794
Federal and State Grants	191,413
Private Grants and Contributions	500
Total Non-Operating Revenues	195,707
Net Loss	(23,789)
Net Assets at Beginning of the Year	340,646
Net Assets at End of Year	$316,857

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

Elyria Community School
Lorain County
Statement of Cash Flows
For the Year Ended June 30, 2007

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,568,541
Cash Payments to Suppliers for Goods and Services	(1,039,450)
Cash Payments to Employees for Services	(800,198)
Other Operating Revenues	99,446
Net Cash Used for Operating Activities	(171,661)
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions Received	500
Federal and State Grants Received	190,741
Net Cash Provided by Noncapital Financing Activities	191,241
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(29,482)
Mortgage Loan Payments	(70,585)
Net Cash Used for Capital and Related Financing Activities	(100,067)
Cash Flows from Investing Activities:	
Interest	3,794
Net Cash Provided by Investing Activities	3,794
Net (Decrease) in Cash	(76,693)
Cash at Beginning of Year	222,785
Cash at End of Year	$146,092

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

Elyria Community School
Lorain County
Statement of Cash Flows
For the Year Ended June 30, 2007
(Continued)

<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Loss	($219,496)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>	
Depreciation	54,665
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(126)
(Increase) in Prepaid Employee Withholding	(27)
(Decrease) in Accounts Payable	(7,953)
(Decrease) in Due Other Governments	(9,429)
Increase in Accrued Wages and Benefits	3,508
(Decrease) in Interest Payable	(625)
Increase in Deferred Revenue	7,822
Total Adjustments	47,835
Net Cash Used for Operating Activities	($171,661)

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

I. Description of the School and Reporting Entity

Elyria Community School (ECS) is a nonprofit corporation established August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On November 7, 2001, ECS 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 that might adversely affect ECS' tax-exempt status. ECS, which is part of Ohio's education program, is independent of any school district. ECS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of ECS.

ECS was approved for operation under a contract between the Governing Authority of Elyria Community School and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001and terminating on June 30, 2006. On October 16, 2003 ECS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC was subsequently renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XII for further discussion of the sponsor services. ECS entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XII for further discussion of this management agreement.

ECS 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 ECS' instructional facility staffed by twenty-eight certificated full time teaching personnel who provide services to 249 students.

Beginning on February 16, 2007, the board members for ECS also serve as the board for Lorain Academy for Gifted Students. Previous to February 16, 2007 the board members of ECS were also board members of Old Brooklyn Community School, Parma Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Lorain Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School, Outreach Academy for Children with Disabilities and Puritas Community Middle School.

On March 27, 2007 ECS changed its legal name to Constellation Schools: Elyria Community Elementary, but continues to operate as Elyria Community School.

II. Summary of Significant Accounting Policies

The financial statements of ECS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. ECS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of ECS' accounting policies are described below.

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. ECS 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 ECS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which ECS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to ECS on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Moneys due ECS for the year ended June 30, 2007 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.

6. Prepaid Employee Withholding

Payments made to vendors for voluntary employee benefits prior to collection from the employee that benefit future periods are recorded as prepaid employee withholding. A current asset for the prepaid amount is recorded at the time of the payment and is subsequently reduced upon collection by payroll withholding.

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 $500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Mortgage Fees have been capitalized at cost and are being amortized over the term of the mortgage for which they have been incurred.

All capital assets are depreciated except for land. Depreciation of buildings, building improvements, computers, office equipment and furniture and equipment is computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Estimated useful lives are as follows:

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

8. Intergovernmental Revenues

ECS 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.

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 2007 school year totaled $1,769,383.

9. Private Grants and Contributions

ECS 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 2007 school year totaled $500.

10. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, ECS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum of one hundred twenty days. ECS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

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. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2007, the carrying amount of ECS' deposits totaled $146,092 and its bank balance was $174,099. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, $70,055 of the bank balance was exposed to custodial risk as discussed below, while $104,044 was covered by the Federal Depository Insurance Corporation.

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

IV. Capital Assets

A summary of capital assets at June 30, 2007 follows:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Capital Assets Not Being Depreciated:				
Land	$133,700	$0	$0	$133,700
Capital Assets Being Depreciated:				
Building	1,071,493	0	0	1,071,493
Building Improvements	33,759	0	0	33,759
Computers/Office Equipment	120,939	20,497	0	141,436
Furniture and Equipment	25,465	8,985	0	34,450
Total Capital Assets Being Depreciated:	1,251,656	29,482	0	1,281,138
Less Accumulated Depreciation:				
Building	(49,113)	(26,787)	0	(75,900)
Building Improvements	(2,228)	(2,089)	0	(4,317)
Computers/Office Equipment	(98,022)	(22,437)	0	(120,459)
Furniture and Equipment	(6,289)	(3,351)	0	(9,640)
Total Accumulated Depreciation:	(155,652)	(54,664)	0	(210,316)
Total Capital Assets Being Depreciated, Net	1,096,004	(25,182)	0	1,070,822
Total Capital Assets Net	$1,229,704	$(25,182)	$0	$1,204,522

V. Purchased Services

Purchased Services include the following:

Instruction	$64,816
Pupil Support Services	92,965
Staff Development & Support	12,102
Administrative	242,889
Occupancy Costs	114,544
Food Services	33,891
Total	$561,207

VI. Allen School Purchase

On August 23, 2004, ECS 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 ESC are located at this site.

VII. Mortgage Notes Payable

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

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

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

During fiscal year 2007 principal was reduced by $37,523 for National City Bank and $33,062 for Horizon Activities Center. Interest expense totaled $65,358 for National City Bank and $12,929 for Horizon Activities Center. As of June 30, 2007 outstanding principal balances are $823,045 for the first mortgage and $169,352 for the second mortgage. Interest payable totaling $5,450 due National City Bank and $988 due Horizon Activities Center has been recorded as a current liability as of June 30, 2007. Principal payments due on the mortgage notes are as follows:

Year	US Bank	Horizon
2008	$ 41,851	$ 35,452
2009	45,185	38,015
2010	48,785	40,763
2011	52,672	43,710
2012	56,868	11,412
2013-2015	577,684	0
Total	$823,045	$169,352

VIII. Risk Management

1. Property and Liability Insurance

ECS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, ECS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at $4,000,000 single occurrence limit and $5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at $500,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

ECS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been four claims filed by ECS employees with the Ohio Worker's Compensation System between January 1, 2000 and June 30, 2007. The total payments made for these claims have been $2,121. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of ECS as June 30, 2007.

3. Employee Medical, Dental, and Life Benefits

ECS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by ECS for the fiscal year is $66,534.

IX. Defined Benefit Pension Plans

1. School Employees Retirement System

ECS contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and ECS is required to contribute at an actuarially determined rate. The current rate for ECS is 14 percent of annual covered payroll. A portion of ECS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007 (the latest information available), 10.68 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. ECS' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $5,044, $4,756 and $3,709. For fiscal year 2007, all required contributions have been made.

2. State Teachers Retirement System

ECS 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.

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, 2007, plan members were required to contribute 10 percent of their annual covered salary. ECS was required to contribute 14 percent. For fiscal year 2007 the portion used to fund pension obligations was 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.

ECS' required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005 were $97,310, $70,253 and $60,992. For fiscal year 2007, all required contributions have been made.

X. Post-Employment Benefits

ECS 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 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, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For ECS, this amount equaled $7,485 during fiscal 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll in fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer’s SERS salaries. For ECS, the amount contributed to fund health care benefits, including surcharge, during the 2007 fiscal year equaled $2,281.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

XI. Contingencies

1. Grants

ECS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of ECS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ECS at June 30, 2007.

2. Litigation

A lawsuit entitled *Beverly Blount-Hill et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the US District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314 violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on ECS cannot be presently determined.

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 2007 are reflected in the financial statements.

XII. Sponsorship and Management Agreements

ECS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as a percentage of state funds received by ECS, from the State of Ohio. During the 2007 fiscal year the fee changed from 1% to 1.5%. The total amount due from ECS for fiscal year 2007 was $21,524 of which $1,648 was outstanding as of June 30, 2007.

ECS entered into an agreement with Constellation Schools (CS) to provide legal, financial, and business management services for fiscal year 2007. The agreement was for a period of one year, effective July 1, 2006. Management fees are calculated as 11.5% of the Fiscal Year 2007 Foundation payment received by ECS, as reported in the Monthly Community School Foundation Report. The total amount due from ECS for the fiscal year ending June 30, 2007 was $181,467 all of which was paid prior to June 30, 2007.

In addition, ECS is participating in a payroll bonus reserve established through CS. Payroll bonus reserve fees are calculated as 1% of the Fiscal Year 2007 Foundation payment received by ECS, as reported in the Monthly Community School Foundation Report. The total amount due from ECS for the fiscal year ending June 30, 2007 was $15,780 all of which was paid prior to June 30, 2007.

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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*

Elyria Community School
Lorain County
300 North Abbe Road
Elyria, Ohio 44035

To the Board of Trustees:

We have audited the financial statements of the Elyria Community School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the School's management in a separate letter dated February 7, 2008.

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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*.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees and the School's Sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 7, 2008

Mary Taylor, CPA
Auditor of State

ELYRIA COMMUNITY SCHOOL

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 11, 2008

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