CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
RICHLAND COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2011

Board of Trustees
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, Ohio 44906

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Mansfield Community Elementary, Richland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

December 13, 2011

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
RICHLAND COUNTY

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

November 21, 2011

The Board of Trustees
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, Ohio 44906

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Mansfield Community Elementary (the School), as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Constellation Schools: Mansfield Community Elementary, as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

The discussion and analysis of Constellation Schools: Mansfield Community Elementary (MCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the financial performance of MCE 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 MCE.

Financial Highlights

Key financial highlights for 2011 include the following:

- In total, net assets increased $41,987, which represents an 11.0% increase from 2010. This increase is due to increased services to other schools and decreased expenses offset by reductions in state foundation and federal funds.

- Total assets increased $253,599, which represents a 64.2% increase from 2010. This increase is from the purchase of the building the school occupies with a decrease in cash and an increase in federal grants receivable.

- Liabilities increased by $211,613, which represents a 1,651.2% increase from 2010. Decreases which occurred in vendor payables, deferred revenues and accrued benefits payable were offset by the debt financing to purchase the building the school occupies.

- Operating revenues decreased by $28,830, which represents a 2.3% decrease from 2010. This is a direct result of decreased foundation funding from the state partially offset by increased revenue for services to other schools.

- Expenses decreased by $81,328 which represents a 4.9% decrease from 2010. Significant operating expense decreases occurred in personnel and benefits and in purchased services. Increases occurred in other expense categories. These overall decreases were due to reduced federal grants because of the schools improved performance over prior years.

- Non-operating revenues decreased by $68,266, which represents a 14.6% decrease from 2010. This decrease is due to reduced federal grants because of the schools improved performance over prior years.

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 MCE has performed financially through June 30, 2011. 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, 2011 and 2010 for MCE.

	2011	2010	Change	%
Assets				
Cash	$319,937	$348,833	($28,896)	-8.3%
Other Current Assets	43,573	18,559	25,014	134.8%
Non-Current Assets	25,000	0	25,000	100.0%
Capital Assets	260,384	27,903	232,481	833.2%
Total Assets	648,894	395,295	253,599	64.2%
Liabilities				
Current Liabilities	15,520	12,816	2,704	21.1%
Long-Term Liabilities	208,909	0	208,909	100.0%
Total Liabilities	224,429	12,816	211,613	1651.2%
Net Assets				
Investment in capital assets, net of related debt	39,560	27,903	11,657	41.8%
Unrestricted	384,906	354,576	30,330	8.6%
Total Net Assets	$424,466	$382,479	$41,987	11.0%

Net Assets increased $41,987, due to increased services to other schools and decreased expenses due to decreases in state foundation and federal funds from the previous year. For assets, cash decreased $28,896; due from other governments increased $25,014 and net capital assets increased $232,481 from 2010. For liabilities, accounts payable decreased $9,194; accrued benefits decreased $216, interest payable increased $628, deferred revenues decreased $430 and mortgages payable increased $220,824 from 2010.

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, 2011.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for MCE for fiscal years ended June 30, 2011 and 2010.

	2011	2010	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$1,137,985	$1,215,147	($77,162)	-6.4%
Other Operating Revenues	85,951	37,619	48,332	128.5%
Total Operating Revenues	1,223,936	1,252,766	(28,830)	-2.3%
Interest Income	52	38	14	36.8%
Federal and State Grants	399,307	467,063	(67,756)	-14.5%
Private Grants and Contributions	118	642	(524)	-81.6%
Total Non-Operating Revenues	399,477	467,743	(68,266)	-14.6%
Total Revenues	1,623,413	1,720,509	(97,096)	-5.6%
Expenses				
Salaries	614,781	667,329	(52,548)	-7.9%
Fringe Benefits	202,745	218,186	(15,441)	-7.1%
Purchased Services	614,447	685,938	(71,491)	-10.4%
Materials and Supplies	75,341	58,153	17,188	29.6%
Capital Outlay	3,463	1,303	2,160	165.8%
Depreciation and Amortization	20,627	11,911	8,716	73.2%
Other Expenses	50,022	19,934	30,088	150.9%
Total Expenses	1,581,426	1,662,754	(81,328)	-4.9%
Net Income/(Loss)	41,987	57,755	(15,768)	-27.3%
Net Assets at Beginning of the Year	382,479	324,724	57,755	17.8%
Net Assets at End of Year	$424,466	$382,479	$41,987	11.0%

Net Assets increased in both fiscal years ending June 30, 2011 and 2010. These changes are due primarily to revenue calculated on the enrollment changes that occurred during both of these years, federal stimulus funds and improved operating efficiencies from the growth of the school. Although certain expenditures such as salaries will increase/decrease as the number of classes increase/decrease other costs remain fixed such as facilities costs. Additionally, grants have been received to supplement various educational programs and purchase educational equipment. Measures have been taken to stabilize and then to increase enrollment during subsequent years.

The most significant changes in revenues from 2010 to 2011 are decreases of $77,162 in Foundation funding, decreases in federal funding due to the improved academic performance of the school of $66,727 and increased in services provided to other schools of $45,000.

In total expenses decreased $81,328 from 2010 to 2011. Salaries and Fringe Benefits decreased $67,989 due to staff changes from grant reductions with regular annual salary increases. Purchased services decreased $71,491 due mostly to reductions in student intervention services, food services, rent, other building services and management services. Materials and Supplies increased $17,188 and Capital Outlay increased $2,160 due to purchasing text books, classroom supplies and furniture and equipment. Depreciation increased $8,716 as a direct result of the purchase of the building the school occupies during the year. Other Operating Expenses increased $30,088 due to the payment of mortgage interest and real estate taxes.

Capital Assets

As of June 30, 2011, MCE had $260,384 invested in in land, building, building improvements, computers, technology, furniture and equipment, net of depreciation. This is a $232,481 increase from June 30, 2010.

The following schedule provides a summary of Capital Assets as of June 30, 2011 and 2010 for MCE.

	2011	**2010**	**Change**	**%**
Capital Assets (net of depreciation)				
Land	$33,580	$0	$33,580	100.0%
Building	187,902	0	187,902	100.0%
Building Improvements	10,372	0	10,372	100.0%
Computers and Technology	16,667	16,303	364	2.2%
Furniture and Equipment	11,863	11,600	263	2.3%
Net Capital Assets	$260,384	$27,903	$232,481	833.2%

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

Debt Service

On December 30, 2010 the School purchased the building in which it operates from Constellation Schools (the previous management company). Financing of the purchase was accomplished through a mortgage held by PNC Bank, National Association with a face value of $223,860. The note is for a term of twenty and one-half months and is being amortized on a 30 year schedule with an interest rate of 7.873 percent per annum and a balloon payment due November 17, 2012. The outstanding principal balances as of June 30, 2011 is $220,824.

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

Current Financial Issues

Constellation Schools: Mansfield Community Elementary opened in the fall of 2002. It has grown from 81 students, eight teaching staff members and expenses of $636,994 to a total of 159 students, 15 teaching staff members and expenses of $1,581,426. Beginning with the 2010 school year the middle school grades were moved to a new school to provide more flexibility in the curriculum for each student and to improve options for limited facilities space. Also during the 2010 year the school moved into a former Mansfield City School District building which is now owned by MCE. The building, located on Trimble Road, will allow MCE to operate in a more traditional educational facility.

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for MCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Treasurer/CFO Thomas F. Babb, CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

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Constellation Schools: Mansfield Community Elementary
Richland County
Statement of Net Assets
As of June 30, 2011

Assets:	
Current Assets:	
Cash	$319,937
Due from Other Governments	43,573
Total Current Assets	363,510
Non-Current Assets:	
Security Deposits	25,000
Non-Depreciable Capital Assets	33,580
Capital Assets (Net of Accumulated Depreciation)	226,804
Total Non-Current Assets	285,384
Total Assets	648,894
Liabilities:	
Current Liabilities:	
Accounts Payable	2,977
Interest Payable	628
Mortgage Notes Payable	11,915
Total Current Liabilities	15,520
Long Term Liabilities:	
Mortgage Notes Payable	208,909
Total Liabilities	224,429
Net Assets:	
Investment in capital assets, net of related debt	39,560
Unrestricted	384,906
Total Net Assets	$424,466

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

Constellation Schools: Mansfield Community Elementary
Richland County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$1,137,985
Other Operating Revenues	85,951
Total Operating Revenues	1,223,936
Operating Expenses:	
Salaries	614,781
Fringe Benefits	202,745
Purchased Services	614,447
Materials and Supplies	75,341
Capital Outlay	3,463
Depreciation	20,627
Other Operating Expenses	42,709
Total Operating Expenses	1,574,113
Operating Loss	(350,177)
Non-Operating Revenues & Expenses:	
Interest Income	52
Interest Expense	(7,313)
Federal and State Grants	399,307
Private Grants and Contributions	118
Total Non-Operating Revenues & Expenses	392,164
Net Income	41,987
Net Assets at Beginning of the Year	382,479
Net Assets at End of Year	$424,466

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

Constellation Schools: Mansfield Community Elementary
Richland County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,137,985
Cash Payments to Suppliers for Goods and Services	(974,435)
Cash Payments to Employees for Services	(614,781)
Other Operating Revenues	85,521
Net Cash Used for Operating Activities	(365,710)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants	375,613
Private Grants and Contributions	118
Net Cash Provided by Noncapital Financing Activities	375,731
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(253,108)
Mortgage Loan Proceeds	223,859
Mortgage Loan Principal Payments	(3,035)
Mortgage Loan Interest Payments	(6,685)
Net Cash Used for Capital and Related Financing Activities	(38,969)
Cash Flows from Investing Activities:	
Interest	52
Net Cash Provided by Investing Activities	52
Net Decrease in Cash	(28,896)
Cash at Beginning of Year	348,833
Cash at End of Year	$319,937

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

Constellation Schools: Mansfield Community Elementary
Richland County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($350,177)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	20,627
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(1,537)
(Increase) in Security Deposits	(25,000)
(Decrease) in Accounts Payable	(9,193)
(Decrease) in Deferred Revenue	(430)
Total Adjustments	(15,533)
Net Cash Used for Operating Activities	($365,710)

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

I. Description of the School and Reporting Entity

Constellation Schools: Mansfield Community Elementary (MCE) is a nonprofit corporation established originally as Mansfield Community School on October 17, 2001 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 May 5, 2003, MCE received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred which may adversely affect the tax-exempt status of MCE. MCE, which is part of Ohio's education program, is independent of any school district. MCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MCE.

MCE was approved for operation under a contract between the Governing Authority of Constellation Schools: Mansfield Community Elementary and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 MCE 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. A new contract was issued through June 30, 2016. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services. MCE entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XIII for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Mansfield Community Elementary.

MCE operates under a six 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 MCE's instructional facility staffed by fifteen certificated full time teaching personnel who provide services to 159 students. During 2011, the board members for MCE also serve as the board for Constellation Schools: Outreach Academy for Students with Disabilities.

II. Summary of Significant Accounting Policies

The financial statements of MCE have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. MCE also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. MCE has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of MCE's accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments

Monies due MCE for the year ended June 30, 2011 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of $500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All capital assets are depreciated. Depreciation of 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 to 20
Computers and Office Equipment	3
Furniture, Equipment and materials	10

7. Intergovernmental Revenues

MCE 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. MCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, State Fiscal Stabilization Funds Program, the American Recovery and Reinvestment Act, Education Jobs, Race to the Top and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2011 school year totaled $1,537,292.

8. Private Grants and Contributions

MCE 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 2011 school year totaled $118.

9. Compensated Absences

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

10. Use of Estimates

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

11. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2011, the carrying amount of MCE's deposits totaled $319,937and its bank balance was $333,992. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2011, $83,992 of the bank balance was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

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

IV. Purchased Services

Purchased Services include the following:

Instruction	$142,528
Pupil Support Services	101,810
Staff Development & Support	34,167
Administrative	197,283
Occupancy Costs	85,412
Food Services	53,247
Total Purchased Services	$614,447

V. Capital Assets

A summary of capital assets at June 30, 2011 follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Capital Assets Not Being Depreciated:				
Land	$0	$33,580	$0	$33,580
Capital Assets Being Depreciated:				
Building	0	190,280	0	190,280
Building Improvements	0	10,847	0	10,847
Computers and Technology	56,074	15,600	0	71,674
Furniture and Equipment	23,039	2,800	0	25,839
Total Capital Assets Being Depreciated	79,113	219,527	0	298,640
Less Accumulated Depreciated:				
Building	0	(2,378)	0	(2,378)
Building Improvements	0	(475)	0	(475)
Computers and Technology	(39,771)	(15,236)	0	(55,007)
Furniture and Equipment	(11,439)	(2,537)	0	(13,976)
Total Accumulated Depreciation	(51,210)	(20,626)	0	(71,836)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	27,903	198,901	0	226,804
Total Capital Assets, Net of Accumulated Depreciation	$27,903	$232,481	$0	$260,384

VI. Operating Lease

MCE leased its facilities from the previous management company, Constellation Schools (CS) under a one-year lease agreement through June 30, 2011. MCE leased the entire building for its use. In an effort to reduce the operating costs of MCE, CS agreed to have MCE make the loan payments to the lender rather than paying rent to CS. On December 30, 2010 CS sold the building to MCE. Total payments made during the fiscal year prior to the transfer totaled $16,711 which was recorded as rent by MCE. CS also provides management services to MCE under a management agreement. See note XII for a description of these services.

VII. Stadium School Purchase

On December 30, 2010, MCE purchased the former Stadium School located at 215 North Trimble, Mansfield, from CS (see note VI) for a total purchase price of $223,860. This cost has been capitalized and will be depreciated over a forty year period. All operations of the school are located at this site.

VIII. Mortgage Notes Payable

On January 31, 2011, MCE entered into a mortgage agreement relating to the purchase of the property at 215 North Trimble, Mansfield (see note VII). A mortgage note in the amount of $223,859 is held by PNC Bank, National Association. The note is for a term of twenty and one-half months is being amortized on a 30 year schedule with an interest rate of 7.873 percent per annum and a balloon payment due November 17, 2012.

During fiscal year 2011 principal was reduced by $3,035 and interest expense totaled $6,685. As of June 30, 2011 the outstanding principal balance is $220,824. Interest payable totaling $628 has been recorded as a current liability as of June 30, 2011. Principal and interest payments due on the mortgage notes are as follows:

Year	Principal	Interest	Total
2012	$11,915	$17,245	$29,160
2013	208,909	6,920	215,829
Total	$220,824	$24,165	$244,989

IX. Risk Management

1. Property and Liability Insurance

MCE 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 2011, MCE contracted with Indiana Insurance Company for all of its insurance.

General property and liability is covered at $10,000,000 single occurrence limit and $11,000,000 aggregated. Hired and Non-Owned Vehicles are covered at $1,000,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

2. Workers' Compensation

MCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been seven claims filed by MCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2011. The total payments made for these claims have been $10,230. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MCE as June 30, 2011.

3. Employee Medical, Dental, Vision and Life Benefits

MCE provides medical, dental, vision and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by MCE for the fiscal year is $97,850.

X. Defined Benefit Pension Plans

1. State Teachers Retirement System

MCE participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount for DB Plan participants.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the member's account balance.

Member contributions in the Combined Plan are allocated by the member, and employer contributions are used to fund a defined benefit payment. A members' defined benefit is determined by multiplying 1% of the members' final average salary by the members' years of service credit. The defined portion of the Combined Plan is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2010 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

MCE's required contributions for pension obligations for the fiscal years ended June 30, 2011, 2010 and 2009 were $72,256, $79,637 and $79,223, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

MCE contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and MCE is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. MCE's contributions to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were $8,255, $7,663 and $7,471, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

XI. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plans. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Section 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2011, 2010 and 2009 MCE's contributions to post-employment health care were $5,558, $6,126 and $6,094, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was $96.40 for most participants, but could be as high as $369.10 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2011 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2011, 2010 and 2009 MCE contributions to Medicare Part B were $448,

$416 and $400, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011 the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2011, 2010 and 2009 MCE contributions to the Health Care Plan, including the surcharge were $1,734, $1,080 and $3,025, respectively; 48.6% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009. $8941 representing the unpaid surcharge due for fiscal year 2011 is recorded as a liability within the respective funds.

XII. Contingencies

1. Grants

MCE 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 MCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCE at June 30, 2011.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2011 are immaterial and are not reflected in the financial statements but will be included in the financial activity for fiscal year 2012.

XIII. Sponsorship and Management Agreements

MCE entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement, effective October 16, 2003 was renewed effective November 2, 2006. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2011 Foundation payments received by MCE, from the State of Ohio. The total amount due from MCE for fiscal year 2011 was $17,043 all of which was paid prior to June 30, 2011.

MCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2011. The agreement was for a period of one year, effective July 1, 2010. Management fees are calculated as 6% of the Fiscal Year 2011 Foundation and State Fiscal Stabilization Funds payment received by MCE from the State of Ohio plus a fixed fee of $82,500. The total amount due from MCE for the fiscal year ending June 30, 2011 was $156,193 all of which was paid prior to June 30, 2011.

XIV. Related Parties

MCE leased the building it occupies from Constellation Schools through December 30, 2010 at which time the building was sold to MCE. MCE also receives various management services from CS. For further explanation please see notes VI, VII and XIII.

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

November 21, 2011

To the Board of Trustees
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, OH 44906

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

We have audited the financial statements of the Constellation Schools: Mansfield Community Elementary (the School) as of and for the year ended June 30, 2011, which collectively comprise the Constellation Schools: Mansfield Community Elementary's basic financial statements and have issued our report thereon dated November 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Constellation Schools: Mansfield Community Elementary is responsible for establishing and maintaining effective 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the School's sponsor, and is not intended to be and should not be used by anyone other than these specific parties.

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Trustees November 21, 2011
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, OH 44906

To the Board of Trustees:

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

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

1. We noted the School amended its anti-harassment policy at its meeting on June 17, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

Rea & Associates, Inc.

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CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 27, 2011