CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2010

Dave Yost • Auditor of State

January 11, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

DAVE YOST
Auditor of State

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www. auditor.state.oh.us

This Page is Intentionally Left Blank.

Mary Taylor, CPA
Auditor of State

Board of Trustees
Constellation School: Old Brooklyn Community Elementary
5983 West 54th Street
Parma, Ohio 44134

We have reviewed the *Independent Auditor's Report* of the Constellation School: Old Brooklyn Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 School: Old Brooklyn Community Elementary is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 28, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
CUYAHOGA COUNTY

TABLE OF CONTENTS

This page intentionally left blank

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

November 24, 2010

The Board of Trustees
Constellation Schools: Old Brooklyn Community Elementary
4430 State Road
Cleveland, Ohio 44109

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Old Brooklyn Community Elementary (the School), as of and for the year ended June 30, 2010, 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: Old Brooklyn Community Elementary, as of June 30, 2010, 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 24, 2010, 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: Old Brooklyn Community Elementary (OBCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the financial performance of OBCE 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 OBCE.

Financial Highlights

Key financial highlights for 2010 include the following:

- In total, net assets decreased $153,682, which represents a 16.3% decrease from 2009. An increase in revenues due primarily to increased enrollment and federal stimulus programs were offset by higher operating costs which included hiring additional staff for the increased enrollment and increased student support, management and food services costs.

- Total assets decreased $174,949, which represents a 1.9% decrease from 2009. This is due mainly to the use of capitalized interest and payment of bond fees from the bond fund and increased depreciation and amortization charges.

- Liabilities decreased $21,267, which represents a 0.3% decrease from 2009. Reductions in vendor payables were offset by slight increases in deferred revenue, bond fees payable and payroll payables during the year.

- Operating revenues increased by $55,243, which represents a 2.7% increase from 2009. This increase is a result additional enrollment due to the addition of new classrooms to the school.

- Expenses increased by $147,283 which represents a 5.8% increase from 2009. Operating expense increases are due to hiring additional staff for the increased enrollment and increased student support, management, food services costs and depreciation offset by lower materials, supplies and equipment purchases.

- Non-operating revenues increased by $196,889, which represents a 78.0% increase from 2009. This is due to increased federal grants for the increased enrollment and federal stimulus funds, which has been partially offset by more than a $17,350 reduction in interest earnings.

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 OBCE has performed financially through June 30, 2010. 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, 2010 and 2009 for OBCE.

	2010	2009	Change	%
Assets				
Cash	$531,271	$418,297	$112,974	27.0%
Other Current Assets	451,249	780,668	(329,419)	-42.2%
Non-Current Assets	1,864,946	1,844,707	20,239	1.1%
Capital Assets	6,033,991	6,012,734	21,257	0.4%
Total Assets	8,881,457	9,056,406	(174,949)	-1.9%
Liabilities				
Current Liabilities	319,876	341,143	(21,267)	-6.2%
Long-Term Liabilities	7,775,000	7,775,000	0	0.0%
Total Liabilities	8,094,876	8,116,143	(21,267)	-0.3%
Net Assets				
Investment in capital assets, net of related debt	536,276	687,880	(151,604)	-22.0%
Restricted for Debt Purposes, net of related debt	17,547	162,727	(145,180)	-89.2%
Unrestricted	232,758	89,656	143,102	159.6%
Total Net Assets	$786,581	$940,263	($153,682)	-16.3%

Net Assets decreased $153,682, due primarily to increased revenues for higher enrollment and federal stimulus funding offset by hiring additional staff for the increase in enrollment and higher operating costs for student support services management services and food services. For assets, cash increased $112,974; bond escrow accounts (used for construction and debt service) decreased $338,280; due from other governments increased $9,215; accounts receivable decreased $354, bond reserve accounts increased $41,790; deferred charges decreased $21,551 and net capital assets increased $21,257 from 2009. For liabilities, accounts payable decreased $23,872; and deferred revenues increased $2,605 from 2009.

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, 2010. The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for OBCE for fiscal years ended June 30, 2010 and 2009.

	2010	2009	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$1,834,857	$1,784,936	$49,921	2.8%
Other Operating Revenues	259,900	254,578	5,322	2.1%
Total Operating Revenues	2,094,757	2,039,514	55,243	2.7%
Interest Income	3	17,365	(17,362)	-100.0%
Federal and State Grants	448,767	234,569	214,198	91.3%
Private Grants and Contributions	540	487	53	10.9%
Total Non-Operating Revenues	449,310	252,421	196,889	78.0%
Total Revenues	2,544,067	2,291,935	252,132	11.0%
Expenses				
Salaries	853,259	808,768	44,491	5.5%
Fringe Benefits	228,904	227,525	1,379	0.6%
Purchased Services	704,174	611,521	92,653	15.2%
Materials and Supplies	102,039	156,084	(54,045)	-34.6%
Capital Outlay	16,677	28,634	(11,957)	-41.8%
Depreciation and Amortization	204,556	134,460	70,096	52.1%
Other Operating Expenses	588,140	583,474	4,666	0.8%
Total Expenses	2,697,749	2,550,466	147,283	5.8%
Net Income/(Loss)	(153,682)	(258,531)	104,849	-40.6%
Net Assets at Beginning of the Year	940,263	1,198,794	(258,531)	-21.6%
Net Assets at End of Year	$786,581	$940,263	($153,682)	-16.3%

Net Assets decreased in both fiscal years 2010 and 2009. Increased enrollment in 2009 required the purchase of additional classroom furniture, equipment and curriculum. In 2010 increased enrollment required hiring more staff, and higher special education; student services; food services; and management services expenditures. Certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease while other costs, such as facilities, once obligated remain fixed and will result in more efficient financial operations over time.

The two most significant changes in revenues from 2009 to 2010 are increases of $49,920 in State Foundation funding due to increased enrollment and the introduction of $163,948 in federal stimulus funding to the school through the state of Ohio. Other Operating Revenue increased due to rent increases and services provided to the middle school. Federal and State Grants (other than stimulus funding) increased due to the enrollment increase. Interest income decreased $17,362 or 100% from 2009 due to cash reductions in bond escrow accounts and the significant reductions in earnings rates in investment markets.

Most categories of expense increased from 2009 to 2010. This is a direct result of increased enrollment, normal annual increases in operating costs plus increased debt service due to bond financing. Salaries and Fringe Benefits increased $45,870; Purchased Services increased $92,653; Materials and Supplies decreased $54,045; Capital Outlay decreased $11,957, depreciation and amortization increased $70,096; and Other Expenses increased $4,666.

Capital Assets

As of June 30, 2010, OBCE had $6,033,991 invested in land, building, building improvements, computers and technology and furniture and equipment, net of depreciation. This is a $21,257 increase over June 30, 2009.

The following schedule provides a summary of Fixed Assets as of June 30, 2010 and 2009 for OBCE.

	2010	**2009**	**Change**	**%**
Capital Assets (net of depreciation)				
Land	$80,800	$80,800	$0	0.0%
Building	754,465	777,739	(23,274)	-3.0%
Building Improvements	5,121,606	5,110,361	11,245	0.2%
Computers and Technology	31,522	8,770	22,752	259.4%
Furniture and Equipment	45,598	35,064	10,534	30.0%
Net Capital Assets	$6,033,991	$6,012,734	$21,257	0.4%

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

Debt Service

On November 12, 2002, OBCE purchased the land and building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage was held by US Bank National Association and the second mortgage was held by G & W Properties.

On January 23, 2008, OBCE refinanced the land and building in which it operates. Additional funds were borrowed to facilitate construction of an addition to meet enrollment demand for the school. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the property occupied by OBCE. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2010 is $7,775,000. During August 2008 the mortgage was transferred from Wells Fargo Bank, National Association to US Bank, National Association. For more information on debt service see the Notes to the Financial Statements.

Current Financial Issues

OBCE opened in the fall of 1998 as one of the first community schools in the State of Ohio. The school has grown from 30 students, two teaching staff members and expenses of $181,928 to a total of 271 students, 22 teaching staff members and expenses of $2,697,749. On March 1, 2006, grades 5 through 8 were split off to form Old Brooklyn Community Middle School. This is providing more flexibility in the curriculum for each student. During this time we purchased our own educational facility and have constructed a substantial addition to accommodate increasing enrollment and allow both schools to cohabit the same property.

During the past year as the nation continued to experience 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 OBCE 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.

This page intentionally left blank

Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Net Assets
As of June 30, 2010

Assets:	
Current Assets:	
Cash	$531,271
Escrow Accounts	429,886
Due from Other Governments	19,397
Accounts Receivable	1,966
Total Current Assets	982,520
Non-Current Assets:	
Bond Reserve Accounts	1,272,296
Deferred Charges	592,650
Non-Depreciable Capital Assets	80,800
Capital Assets (Net of Accumulated Depreciation)	5,953,191
Total Non-Current Assets	7,898,937
Total Assets	8,881,457
Liabilities:	
Current Liabilities:	
Accounts Payable	34,090
Interest Payable	269,206
Deferred Revenue	16,580
Total Current Liabilities	319,876
Long Term Liabilities:	
Capital Lease Bond Notes Payable	7,775,000
Total Liabilities	8,094,876
Net Assets:	
Investment in capital assets, net of related debt	536,276
Restricted for Debt Purposes, net of related debt	17,547
Unrestricted	232,758
Total Net Assets	$786,581

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

Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$1,834,857
Other Operating Revenues	259,900
Total Operating Revenues	2,094,757
Operating Expenses:	
Salaries	853,259
Fringe Benefits	228,904
Purchased Services	704,174
Materials and Supplies	102,039
Capital Outlay	16,677
Depreciation and Amortization	204,556
Other Operating Expenses	49,728
Total Operating Expenses	2,159,337
Operating Loss	(64,580)
Non-Operating Revenues & Expenses:	
Interest Income	3
Interest Expense	(538,412)
Federal and State Grants	448,767
Private Grants and Contributions	540
Total Non-Operating Revenues & Expenses	(89,102)
Net Loss	(153,682)
Net Assets at Beginning of the Year	940,263
Net Assets at End of Year	$786,581

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

Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,834,857
Cash Payments to Suppliers for Goods and Services	(1,127,326)
Cash Payments to Employees for Services	(853,259)
Other Operating Revenues	264,790
Net Cash Provided by Operating Activities	119,062
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions Received	540
Federal and State Grants Received	439,554
Net Cash Provided by Noncapital Financing Activities	440,094
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(204,263)
Decrease in Escrow Funds	338,280
Increase in Bond Reserve Accounts	(41,790)
Bond Interest Payments	(538,412)
Net Cash Used for Capital and Related Financing Activities	(446,185)
Cash Flows from Investing Activities:	
Interest	3
Net Cash Provided by Investing Activities	3
Net Increase in Cash	112,974
Cash at Beginning of Year	418,297
Cash at End of Year	$531,271

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

Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010
(Continued)

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	($64,580)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	204,556
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	354
(Decrease) in Accounts Payable	(23,873)
Increase in Deferred Revenue	2,605
Total Adjustments	183,642
Net Cash Provided by Operating Activities	$119,062

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

I. Description of the School and Reporting Entity

Constellation Schools: Old Brooklyn Community Elementary (OBCE), known previously as Old Brooklyn Montessori School (OBMS) and Old Brooklyn Community School, is a nonprofit corporation established on February 3, 1997 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 December 19, 1997, OBCE (under the name Archwood Montessori School) 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 the tax-exempt status of OBCE. OBCE, which is part of Ohio's education program, is independent of any school district. OBCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of OBCE.

OBCE (as OBMS) was approved for operation under a contract between the Governing Authority of OBCE (as OBMS) and the Ohio Department of Education (the Sponsor) for a period of five years commencing in the fall of 1998. The contract was renewed in 2003 for a two-year period commencing July 1, 2003. On October 16, 2003 OBCE (as OBMS) entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. On June 12, 2006, the name of the school was changed to Old Brooklyn Community School. The contract with LCESC was renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services. OBCE 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: Old Brooklyn Community Elementary.

OBCE 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 the instructional facility for OBCE, which is staffed by twenty-two certificated full time teaching personnel who provide services to 271 students. During 2010, the board members for OBCE also serve as the board for Constellation Schools: Old Brooklyn Community Middle.

II. Summary of Significant Accounting Policies

The financial statements of OBCE 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. OBCE 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. OBCE has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of OBCE'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. OBCE 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 OBCE 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 OBCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to OBCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Monies due OBCE for the year ended June 30, 2010 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 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 except for land. Depreciation of buildings, building improvements, computers, technology 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 or less. Estimated useful lives are as follows:

Capital Asset Classification	Years
Building	40
Building Improvements	10 to 40
Computers and Technology	3
Furniture and Equipment	10

7. Intergovernmental Revenues

OBCE currently participates in the State Foundation Program, the State Poverty Based Assistance Program and the Federal State Fiscal Stabilization Funds Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. OBCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, the American Recovery and Reinvestment Act 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 2010 school year totaled $2,283,624.

8. Private Grants and Contributions

OBCE 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 2010 school year totaled $540.

9. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, OBCE 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. OBCE 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 OBCE consists of materials fees received in the current year which pertains to the next school year.

12. Deferred Charges

Deferred charges have been recorded on the Statement of Net Assets to recognize financing fees related to the bond financing arrangement discussed in note VII. These charges are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method.

III. Deposits

At fiscal year end June 30, 2010, the carrying amount of OBCE's deposits totaled $531,271 and its bank balance was $551,392. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2010, $301,392 of OBCE's bank balance was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of OBCE and the Industrial Development Authority of the County of Pima, Arizona totaled $1,702,182 at fiscal year end June 30, 2010. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

Custodial credit risk is the risk that in the event of bank failure, OBCE will not be able to recover the deposits. All bank 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 OBCE.

IV. Capital Assets

A summary of capital assets at June 30, 2010 follows:

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Capital Assets Not Being Depreciated:				
Land	$80,800	$0	$0	$80,800
Capital Assets Being Depreciated:				
Building	930,959	0	0	930,959
Building Improvements	5,235,141	147,676	0	5,382,817
Computers and Technology	79,653	31,959	0	111,612
Furniture and Equipment	123,150	24,628	0	147,778
Total Capital Assets Being Depreciated	6,368,903	204,263	0	6,573,166
Less Accumulated Depreciated:				
Building	(153,220)	(23,274)	0	(176,494)
Building Improvements	(124,780)	(136,431)	0	(261,211)
Computers and Technology	(70,883)	(9,207)	0	(80,090)
Furniture and Equipment	(88,086)	(14,094)	0	(102,180)
Total Accumulated Depreciation:	(436,969)	(183,006)	0	(619,975)
Capital Assets Being Depreciated:				
Net of Accumulated Depreciation	5,931,934	21,257	0	5,953,191
Total Capital Assets, Net of Accumulated Depreciation	$6,012,734	$21,257	$0	$6,033,991

V. Purchased Services

Purchased Services include the following:

Instruction	$72,219
Pupil Support Services	80,462
Staff Development & Support	14,142
Administrative	308,930
Occupancy Costs	131,624
Transportation	11,600
Food Services	82,794
Extracurricular Activities	2,403
Total Purchased Services	$704,174

VI. Dawning School Building Purchase

On July 1, 2002, OBCE moved its operations to the former Dawning School located at 4430 State Road, Cleveland, which it purchased on November 12, 2002. The purchase price of $950,000 and other purchase costs totaling $61,759 have been capitalized and are being depreciated over a forty year period. All operations of OBCE are located at this site.

In order to finance a multi-million dollar expansion project, OBCE sold the building and land which it occupies to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. OBCE leases the property from IDA under a capitalized lease arrangement (see Note VII). The original purchase price, other purchase costs and building improvements continue to be recognized as capital assets and are being depreciated over their remaining useful life. Loan fees, previously capitalized under the original mortgage, have been expensed net of accumulated depreciation.

VII. Capital Lease Bond Notes Payable

On January 23, 2008 OBCE closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the property owned by OBCE for the remaining mortgage balance carried by OBCE at the time. In addition IDA is financing a multi-million dollar building expansion to meet increasing demand for enrollment. The property is leased back to OBCE through annual lease renewals through January 2038.

IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association which was transferred to US Bank, National Association in August 2008. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2010 is $7,775,000 and interest payable due July 1, 2010 is $269,206. Interest expense during 2010 totaled $538,412. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/09	Additions	Deletions	6/30/10	Due In One Year
Lease Revenue Bonds	$7,775,000	$0	$0	$7,775,000	$0

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, “Accounting for Leases” and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during fiscal year 2009 and Construction in Progress totaling $4,828,527 was transferred to the building improvements capital account. Bond Issuance costs, finance fees and underwriters discount totaling $646,527 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2010 was $53,877. The Bond Indenture requires OBCE to meet certain covenants. As of June 30, 2010 OBCE is in compliance with those covenants.

As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee and subsequently transferred to US Bank, N.A. Payments for construction and financing activities have been paid from these accounts through June 30, 2010. Lease payments were made by OBCE to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term. Lease payments made during 2010 to fund interest, reserves and bond expenses totaled $417,161. The balances of escrow and reserve accounts as of June 30, 2010 are as follows:

Bond Fund	$418,581
Expense Fund	11,305
Total Bond Escrow Accounts	$429,886

Reserve Fund	$775,428
Supplemental Reserve	108,114
Operating Reserve	388,754
Total Bond Reserve Accounts	$1,272,296

The assets refinanced and acquired through the capital lease as of June 30, 2010 are as follows:

Land	$80,800
Building	930,959
Building Improvements	5,382,817
Bond Finance Fees	646,527
Sub-Total	7,041,103
Accumulated Depreciation/Amortization	(491,582)
Net Book Value	$6,549,521

Future minimum lease payments for principal and interest (does not include reserves and management expenses) under the capital lease are as follows:

Year	Principal	Interest	Total
2011	$0	$538,412	$538,412
2012	93,256	538,412	631,668
2013	99,578	532,467	632,045
2014	105,901	526,118	632,019
2015	112,223	519,367	631,590
2016 - 2020	676,499	2,480,354	3,156,853
2021 - 2025	938,880	2,218,048	3,156,928
2026 - 2030	1,318,225	1,839,984	3,158,209
2031 - 2035	1,847,728	1,309,342	3,157,070
2036 - 2038	2,582,710	445,557	3,028,267
Total	$7,775,000	$10,948,061	$18,723,061

VIII. Sub Lease

OBCE sub-leases space to Constellation Schools: Old Brooklyn Community Middle (OBCM). Under the terms of the sub-lease OBCM made monthly lease payments of $12,166.67. OBCE charged OBCM a total of $146,000 during the year. As of June 30, 2010 all lease payments were collected from OBCM.

IX. Risk Management

1. Property and Liability Insurance

OBCE 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 2010, OBCE 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

OBCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been five claims filed by OBCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2010. The total payments made for these claims have been $4,217. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of OBCE as June 30, 2010.

3. Employee Medical, Dental, and Life Benefits

OBCE 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 OBCE for the fiscal year is $89,361.

X. Defined Benefit Pension Plans

1. State Teachers Retirement System

OBCE 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, 2009 (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%.

OBCE's required contributions for pension obligations for the fiscal years ended June 30, 2010, 2009 and 2008 were $98,426, $94,079 and $83,532, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

OBCE 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 OBCE 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, 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. OBCE's contributions to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were $13,460, $11,820 and $10,027, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

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, 2010, 2009 and 2008 OBCE's contributions to post-employment health care were $7,571, $7,237 and $6,425, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

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 2010 was

$96.40 for most participants, but could be as high as $353.60 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 2010 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2010, 2009 and 2008 OBCE contributions to Medicare Part B were $731, $633 and $487, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

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, 2010 the health care allocation is 0.46%. 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 2010, 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, 2010, 2009 and 2008 OBCE contributions to the Health Care Plan, including the surcharge were $1,893, $11,627 and $6,083, respectively; 23.37% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008. $1,451 representing the unpaid surcharge due for fiscal year 2010 is recorded as a liability within the respective funds.

XII. Contingencies

1. Grants

OBCE 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 OBCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of OBCE at June 30, 2010.

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 2010 are immaterial and are not reflected in the financial statements but will be included in the financial activity for fiscal year 2011.

XIII. Sponsorship and Management Agreements

OBCE 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 Foundation payments received by OBCE, from the State of Ohio. The total amount due LCESC from OBCE for fiscal year 2010 was $27,523, all of which was paid prior to June 30, 2010.

OBCE entered into an agreement with Constellation Schools (CS) to provide legal, financial, business and educational management services for fiscal year 2010. The agreement was for a period of one year, effective July 1, 2009. Management fees are calculated as 6% of the Fiscal Year 2010 Foundation and State Fiscal Stabilization Funds payment received by OBCE from the State of Ohio plus a fixed fee of $137,500. The total amount due CS from OBCE for the fiscal year ending June 30, 2010 was $255,241 all of which was paid prior to June 30, 2010.

XIV. Restricted for Debt Purposes, Net of Related Debt

Restricted for debt purposes, net of related debt represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Project Fund, which was included in Escrow Accounts, was being held for construction purposes and was liquidated during the fiscal year. The Bond Fund and the Expense Fund, which are included in Escrow Accounts, along with the Bond Reserve Accounts, which are being held for bond financing reserve requirements, will be funded until January 1, 2038.

This page intentionally left blank

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

November 24, 2010

To the Board of Trustees
Constellation Schools: Old Brooklyn Community Elementary
4430 State Road
Cleveland, OH 44109

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 governmental activities of the Constellation Schools: Old Brooklyn Community Elementary (the School) as of and for the year ended June 30, 2010, which collectively compromise the Constellation Schools: Old Brooklyn Community Elementary's basic financial statements and have issued our report thereon dated November 24, 2010. 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

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*.

We noted certain matters that we reported to management of the Constellation Schools: Old Brooklyn Community Elementary in a separate letter dated November 24, 2010.

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.

Mary Taylor, CPA
Auditor of State

OLD BROOKLYN COMMUNITY ELEMENTARY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 11, 2011

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us