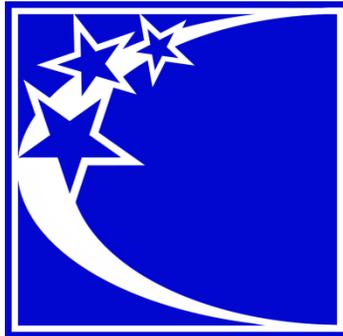


**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2014



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Parma Community
5983 West 54th Street
Parma, Ohio 44129

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 17, 2014

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**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO**

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INDEPENDENT AUDITOR'S REPORT

November 25, 2014

To the Board of Trustees
Constellation Schools: Parma Community
5983 West 54th Street
Parma, OH 44129

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As described in Note II.3 to the financial statements, during 2014, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* and as a result restated their June 30, 2013 net position due to a reclassification of debt issuance costs as an expense in the period incurred rather than amortizing over the life of the debt. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Kea & Associates, Inc.

Medina, Ohio

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CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2014

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

Financial Highlights

Key financial highlights for 2014 include the following:

- Construction of a six room addition to the West 54th Street school building was completed and placed in service during the year. On April 10, 2014 PC shared in the closing of a multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority to refinance a prior bond issue, reacquire title to the land and buildings PC operates from, improve debt covenants from the prior bond issue, pay for the acquisition of a third building and complete ongoing building renovations.
- In total, net position increased \$331,365, which represents a 47.0% increase from 2013. An increase in revenues due to increased enrollment was offset by higher operating costs which included hiring additional staff for the increased enrollment.
- Total assets and deferred outflow of resources increased \$3,054,794, which is a 46.8% increase from 2013. This is from increased cash from net income, a net increase in bond escrow and reserve accounts; increases in capital assets from building construction; purchasing a third school building; and deferred outflows from the bond refinancing.
- Liabilities increased \$2,723,429 which represents a 46.8% increase from 2013. Increases of bonds payable and loans payable were offset by decreases in vendor payables, bond fees payable, notes payable, bond interest payable and leases payable.
- Operating revenues increased by \$1,000,277, which represents a 14.4% increase from 2013. This is a direct result of enrollment increases from 2013. A full year of Casino Tax revenues were received during 2014.
- Expenses increased by \$889,802 which represents an 11.7% increase from 2013. Operating expense increases are due to additional staff and services and bond fees which were partially offset by reductions in textbooks and capital purchases.
- Non-operating revenues increased by \$32,550, which represents a 3.9% increase from 2013. Increases in federal grants programs related to increased student enrollment plus interest earned on cash balances were partially offset by a decrease in private grants and contributions.

Using this Financial Report

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Statement of Net Position

The Statement of Net Position looks at how well PC has performed financially through June 30, 2014. This statement includes all of the assets, deferred outflow of resources, liabilities and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Position for fiscal years ended June 30, 2014 and 2013 for PC.

	2014	Restated 2013	Change	%
Assets				
Cash	\$1,814,621	\$1,134,665	\$679,956	59.9%
Other Current Assets	1,404,219	251,284	1,152,935	458.8%
Non-Current Assets	701,394	1,031,798	(330,404)	-32.0%
Capital Assets	4,970,227	4,104,099	866,128	21.1%
Deferred Outflow of Resources	686,179	0	686,179	100.0%
Total Assets and Deferred Outflow of Resources	<u>9,576,640</u>	<u>6,521,846</u>	<u>3,054,794</u>	<u>46.8%</u>
Liabilities				
Current Liabilities	291,728	381,539	(89,811)	-23.5%
Long-Term Liabilities	<u>8,248,996</u>	<u>5,435,756</u>	<u>2,813,240</u>	<u>51.8%</u>
Total Liabilities	<u>8,540,724</u>	<u>5,817,295</u>	<u>2,723,429</u>	<u>46.8%</u>
Net Position				
Net Investment in Capital Assets	(805,554)	(393,627)	(411,927)	104.6%
Net Restricted for Debt Purposes	159,591	924,716	(765,125)	-82.7%
Unrestricted	<u>1,681,879</u>	<u>173,462</u>	<u>1,508,417</u>	<u>869.6%</u>
Total Net Position	<u>\$1,035,916</u>	<u>\$704,551</u>	<u>\$331,365</u>	<u>47.0%</u>

Net Position increased \$331,365, due to increased enrollment offset by higher operating costs and bond issuance fees. Cash increased \$679,956; bond escrow accounts (used for debt service and building renovations) increased \$1,122,885; accounts receivable increased \$38,709; due from other governments decreased \$8,659; bond reserve accounts decreased \$330,404; net capital assets increased \$866,128 and deferred outflow of resources increased \$686,179 from 2013. Accounts payable decreased \$20,642; interest payable decreased \$62,989; unearned revenues (previously deferred revenues) increased \$10,762; loans payable increased \$24,926; equipment lease payable decreased \$19,722; notes payable decreased \$261,774 and capital lease bonds notes payable increased \$3,052,868 from 2013.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Statement of Revenues, Expenses and Changes in Net Position

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

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

	<u>2014</u>	<u>Restated 2013</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$7,498,256	\$6,579,318	\$918,938	14.0%
Other Operating Revenues	462,226	380,887	81,339	21.4%
Total Operating Revenues	<u>7,960,482</u>	<u>6,960,205</u>	<u>1,000,277</u>	<u>14.4%</u>
Interest Income	5,091	545	4,546	834.1%
Private Grants and Contributions	7,136	23,347	(16,211)	-69.4%
Federal and State Grants	865,741	821,526	44,215	5.4%
Total Non-Operating Revenues	<u>877,968</u>	<u>845,418</u>	<u>32,550</u>	<u>3.9%</u>
Total Revenues	<u>8,838,450</u>	<u>7,805,623</u>	<u>1,032,827</u>	<u>13.2%</u>
Expenses				
Salaries	3,720,509	3,519,679	200,830	5.7%
Fringe Benefits	1,118,534	1,041,328	77,206	7.4%
Purchased Services	2,182,929	2,027,311	155,618	7.7%
Materials and Supplies	252,798	259,596	(6,798)	-2.6%
Capital Outlay	51,610	100,371	(48,761)	-48.6%
Depreciation and Amortization	185,379	160,192	25,187	15.7%
Other Expenses	995,326	508,806	486,520	95.6%
Total Expenses	<u>8,507,085</u>	<u>7,617,283</u>	<u>889,802</u>	<u>11.7%</u>
Changes in Net Position	<u>331,365</u>	<u>188,340</u>	<u>143,025</u>	<u>75.9%</u>
Net Position: Beginning of the Year	<u>704,551</u>	<u>516,211</u>	<u>188,340</u>	<u>36.5%</u>
Net Position: End of Year	<u>\$1,035,916</u>	<u>\$704,551</u>	<u>\$331,365</u>	<u>47.0%</u>

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Net Position increased in both fiscal years ended June 30, 2014 and 2013. Increased enrollment for both years plus the addition of Casino Tax collections resulted in significant revenue increases in both years. These increased revenues were partially offset by higher operating costs which included hiring additional staff to provide educational services for the increased enrollment. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant increases in revenues from 2013 to 2014 are increases of \$886,914 in Foundation funding due to the enrollment increases and Casino Taxes of \$32,024. Federal funding to the school through the state of Ohio increased \$45,382 due to the enrollment increase for the year. Interest income increased \$4,546; food service program revenues decreased \$9,060; materials fees decreased \$1,249 and other income increased \$10,232 due to the enrollment increases for the school. Contributions also decreased \$16,211 in 2014. All other Operating and Non-Operating Revenues increased by a combined total of \$80,249.

Total expenses increased from 2013 to 2014 as a direct result of the enrollment increases and bond refinance fees. Salaries and Fringe Benefits increased \$278,036 due to additional staffing and annual increases. Purchased services increased \$155,618 due to increases in instruction services, field trips, student support services, professional development, management services and facility costs. Materials and Supplies decreased \$6,798 for purchases of classroom supplies, and Capital Outlay decreased \$48,761 for the purchase of classroom technology, furniture and equipment. Depreciation increased \$25,187 due to increases facilities additions. Other Expenses increased \$486,520 due primarily to bond fees.

Capital Assets

As of June 30, 2014, PC had \$4,970,277 invested in land, construction in process, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a \$866,128 increase from June 30, 2013. The following schedule provides a summary of the School's Capital Assets as of June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$561,200	\$483,200	\$78,000	16.1%
Construction in Process	26,136	262,747	(236,611)	-90.1%
Building	2,200,902	1,811,603	389,299	21.5%
Building Improvements	2,046,948	1,351,955	694,993	51.4%
Technology and Software	63,304	109,680	(46,376)	-42.3%
Furniture and Equipment	71,737	84,914	(13,177)	-15.5%
Net Capital Assets	<u>\$4,970,227</u>	<u>\$4,104,099</u>	<u>\$866,128</u>	<u>21.1%</u>

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis
For the Year Ended June 30, 2014

Bond Debt Service

On November 28, 2003 PC purchased the land and building in which it operates at 7667 Day Drive in Parma. 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 Thomas J. Coury, Trustee. On January 23, 2008, PC refinanced the land and building on Day Drive in which it operates. Additional funds were borrowed to facilitate the purchase and renovation of a former school building located on West 54th Street in Parma. 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.

On April 10, 2014 PC shared in the closing of a multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, along with escrow and reserve deposits from a 2008 bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due. The CCCPA bond refinance allowed PC to reacquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at PC. PC provided a mortgage on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, varies from a rate of 5.00% per annum to 7.75%. The outstanding principal balance, net of unamortized original bond discount, as of June 30, 2014 is \$8,265,302. For more information on debt service see the Notes to the Financial Statements.

Construction Loan

On May 20, 2013, a bridge loan was secured with CF Bank to construct a six room addition on the West 54th Street building. Construction was completed during the summer of 2013 and the addition was placed in service in August 2013. The total amount borrowed was \$677,605. Interest paid during the construction period was capitalized as part of the overall cost of the addition. Collateral, in the form of a cash money market account, was provided by the school. On April 10, 2014 the loan was paid in full, along with interest due at the time, with funds provided by the capital lease bond issue previously mentioned.

Equipment Financing

During fiscal year 2012 PC entered into a lease agreement with Winthrop Resources Corporation for \$79,640 worth of technology equipment. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term is for a total of 48 months, carries an interest rate of 7.38% per annum and will expire in January 2016 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2014 on the lease payable is \$34,350.

During fiscal year 2014, PC secured a four year loan with CF Bank to purchase \$29,515 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. The outstanding principal value as of June 30, 2014 on the loan payable is \$24,926.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2014

In February of 2014 PC entered into a group leasing agreement to lease technology equipment. As of October 30, 2014 PC has drawn \$278,709 as a part of the lease (there were no draws prior to July 1, 2014). The lease is scheduled to close to purchases during the month of November after which it will convert to a 48 month lease.

Current Financial Issues

PC opened in the fall of 2000. The school has grown from 37 students, six teaching staff members and expenses of \$380,240 to a total of 1,063 students, 94 teaching staff members and expenses of \$8,507,085. During the summer of 2013 a six room addition was constructed at the West 54th site to accommodate the growth of the school. In February of 2014 an additional school building was purchased to expand the current educational program to meet the enrollment demand for the school. PC operated out of two buildings during the current year and opened the third building in August 2014.

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

Contacting the School's Financial Management

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

**Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2014**

Current Assets:

Cash	\$1,814,621
Escrow Accounts	1,347,736
Accounts Receivable	38,709
Due from Other Governments	17,774
<i>Total Current Assets</i>	<u>3,218,840</u>

Non-Current Assets:

Security Deposit	26,921
Bond Reserve Accounts	674,473
Non-Depreciable Capital Assets	587,336
Capital Assets (Net of Accumulated Depreciation)	4,382,891
<i>Total Non-Current Assets</i>	<u>5,671,621</u>
<i>Total Assets</i>	<u>8,890,461</u>

Deferred Outflow of Resources:

Unamortized Deferred Charges on Bond Refinancing	686,179
<i>Total Deferred Outflow of Resources</i>	<u>686,179</u>
<i>Total Assets and Deferred Outflow of Resources</i>	<u>9,576,640</u>

Current Liabilities:

Accounts Payable	25,472
Interest Payable	118,186
Unearned Revenue	72,488
Loan Payable	7,129
Capital Lease Equipment Payable	21,227
Capital Lease Bond Notes Payable	47,226
<i>Total Current Liabilities</i>	<u>291,728</u>

Long Term Liabilities:

Loan Payable	17,797
Capital Lease Equipment Payable	13,123
Capital Lease Bond Notes Payable	8,218,076
<i>Total Long Term Liabilities</i>	<u>8,248,996</u>
<i>Total Liabilities</i>	<u>8,540,724</u>

Net Position:

Net Investment in Capital Assets	(805,554)
Net Restricted for Debt Purposes	159,591
Unrestricted	1,681,879
<i>Total Net Position</i>	<u>\$1,035,916</u>

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

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

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$7,498,256
Other Operating Revenues	462,226
<i>Total Operating Revenues</i>	<u>7,960,482</u>

Operating Expenses:

Salaries	3,720,509
Fringe Benefits	1,118,534
Purchased Services	2,182,929
Materials and Supplies	252,798
Capital Outlay	51,610
Depreciation	185,379
Other Operating Expenses	213,127
<i>Total Operating Expenses</i>	<u>7,724,886</u>

Operating Income	<u>235,596</u>
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Non-Operating Revenues & Expenses:

Interest Income	5,091
Interest Expense	(412,769)
Bond Issuance Fees	(369,430)
Federal and State Grants	865,741
Private Grants and Contributions	7,136
<i>Total Non-Operating Revenues & Expenses</i>	<u>95,769</u>

Change in Net Position	<u>331,365</u>
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Net Position at Beginning of the Year - Restated (See Note II.3)	<u>704,551</u>
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Net Position at End of Year	<u><u>\$1,035,916</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$7,498,256
Cash Payments to Suppliers for Goods and Services	(3,847,126)
Cash Payments to Employees for Services	(3,720,509)
Other Operating Revenues	472,988
Net Cash Provided by Operating Activities	<u>403,609</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	7,136
Federal and State Grants Received	881,886
Net Cash Provided by Noncapital Financing Activities	<u>889,022</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(1,090,216)
Bond Issuance Fees	(369,430)
Bond Issue Proceeds	8,309,086
Bond Issue Discount	(44,240)
Increase in Escrow Funds	(1,122,885)
Decrease in Bond Reserve Accounts	330,404
Payment to Escrow Agent	(5,832,959)
Bond Principal Payments	(72,802)
Bond Interest Payments	(450,946)
Equipment Lease Principal Payments	(19,722)
Equipment Lease Interest Payments	(3,331)
Notes Payable Proceeds	415,830
Notes Payable Principal Payments	(677,605)
Notes Payable Interest Payments	(13,129)
Proceeds From Loans Payable	29,515
Loan Principal Payments	(4,589)
Loan Interest Payments	(747)
Net Cash Used for Capital and Related Financing Activities	<u>(617,766)</u>

Cash Flows from Investing Activities

Interest	<u>5,091</u>
Net Cash Provided by Investing Activities	<u>5,091</u>
Net Increase in Cash	679,956
Cash at Beginning of Year	<u>1,134,665</u>
Cash at End of Year	<u>\$1,814,621</u>

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

**Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(Continued)**

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:**

Operating Income	\$235,596
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**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:**

Depreciation	185,379
Capital Asset Returned for Refund	38,709

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(38,709)
(Increase) in Due from Other Governments	(7,763)
(Decrease) in Accounts Payable	(20,365)
Increase in Unearned Revenue	10,762

Total Adjustments	168,013
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Net Cash Provided by Operating Activities	\$403,609
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

- A Community School -
Cuyahoga County, Ohio

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

I. Description of the School and Reporting Entity

Constellation Schools: Parma Community (PC) is a nonprofit corporation established March 14, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On September 19, 2001, PC 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 PC. PC, which is part of Ohio's education program, is independent of any school district. PC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PC.

PC was approved for operation as Parma Community School under a contract between the Governing Authority of PC and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2000. On October 16, 2003 Lucas County Educational Service Center (LCESC) replaced the Ohio Department of Education. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2019. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XVIII for further discussion of the sponsor services.

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

PC 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 facilities for PC, which is staffed by ninety four certificated full time personnel and twenty-one support staff who provided services to 1,063 students. During 2014, the board members for PC also serve as the board for Constellation Schools: Old Brooklyn Community Elementary, Constellation Schools: Elyria Community and Constellation Schools: Lorain Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of PC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of PC's accounting policies are described below.

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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, deferred outflow of resources and all liabilities are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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

3. Change in Accounting Principles

For 2014, PC has implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred*

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outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of PC as follows:

Net Position Previously Reported as of June 30, 2013	\$1,154,026
Removal of Unamortized Bond Issuance Costs	<u>(449,475)</u>
Restated Net Position at July 1, 2013	<u><u>\$704,551</u></u>

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

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

7. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$1,000 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

8. Intergovernmental Revenues

PC currently participates in the State Foundation Program, the State Poverty Based Assistance Program and Casino Tax Distribution. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. PC also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, Race to the Top and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2014 school year totaled \$8,363,997.

9. Private Grants and Contributions

PC received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2014 school year totaled \$7,136.

10. Compensated Absences

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

11. Use of Estimates

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

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12. Unearned Revenue

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

13. Deferred Inflows of Resources and Deferred Outflows of Resources

A deferred inflow of resources is an acquisition of assets by the school that is applicable to a future reporting period. A deferred outflow of resources is a consumption of assets by the school that is applicable to a future reporting period. When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its' reacquisition price. This amount is deferred and amortized over the shorter period of the life of the refunded debt or of the refunding debt. PC did not have any deferred inflows of resources in 2014.

III. Deposits

At fiscal year end June 30, 2014, the carrying amount of PC's deposits totaled \$1,814,621 and its bank balance was \$1,909,953. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2014, \$1,409,953 of the bank balance was exposed to custodial risk as discussed below, while \$500,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of PC and the Cleveland Cuyahoga County Port Authority totaled \$2,022,209 at fiscal year end June 30, 2014. The escrow accounts are invested in the US Treasury and are 100% backed by the full faith and credit of the United States government. Reserve accounts are invested in U.S. Bank Open Commercial Paper instruments.

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

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IV. Capital Assets

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

	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
Capital Assets Not Being Depreciated:				
Land	\$483,200	\$78,000	\$0	\$561,200
Construction in Process	262,747	468,781	(705,392)	26,136
Total Capital Assets Not Being Depreciated:	745,947	546,781	(705,392)	587,336
Capital Assets Being Depreciated:				
Building	2,223,971	444,898	0	2,668,869
Building Improvements	1,592,789	772,414	0	2,365,203
Technology and Software	206,430	29,515	(38,709)	197,236
Furniture and Equipment	153,108	2,000	0	155,108
Total Capital Assets Being Depreciated	4,176,298	1,248,827	(38,709)	5,386,416
Less Accumulated Depreciated:				
Building	(412,368)	(55,599)	0	(467,967)
Building Improvements	(240,834)	(77,421)	0	(318,255)
Technology and Software	(96,750)	(37,182)	0	(133,932)
Furniture and Equipment	(68,194)	(15,177)	0	(83,371)
Total Accumulated Depreciation	(818,146)	(185,379)	0	(1,003,525)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	3,358,152	1,063,448	(38,709)	4,382,891
Total Capital Assets, Net of Accumulated Depreciation	\$4,104,099	\$1,610,229	(\$744,101)	\$4,970,227

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V. Purchased Services

Purchased Services include the following:

Instruction	\$238,282
Pupil Support Services	389,785
Staff Development & Support	63,705
Administrative	1,037,540
Occupancy Costs	302,675
Transportation	7,500
Food Services	140,752
Student Activities	<u>2,690</u>
 Total Purchased Services	 <u><u>\$2,182,929</u></u>

VI. Loan Payable

During fiscal year 2014, PC secured a four year loan with CF Bank to purchase \$29,515 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on October 15, 2017. Equipment purchased with loan proceeds has been capitalized. Principal payments during fiscal year 2014 totaled \$4,589 and interest paid totaled \$747. Future minimum loan payments for principal and interest under the capital lease are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$7,129	\$876	\$8,005
2016	7,423	582	8,005
2017	7,728	277	8,005
2018	<u>2,646</u>	<u>22</u>	<u>2,668</u>
Total	<u><u>\$24,926</u></u>	<u><u>\$1,757</u></u>	<u><u>\$26,683</u></u>

VII. Capital Equipment Lease Payable

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

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Assets of technology equipment totaling \$79,640 have been capitalized. This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2014 totaled \$19,722 and interest paid totaled \$3,331. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2015	\$21,227	\$1,826	\$23,053
2016	13,123	326	13,449
Total	\$34,350	\$2,152	\$36,502

VIII. Day Drive School Building Purchase

On November 28, 2003, PC purchased the building it occupied at 7667 Day Drive, Parma. The purchase price of \$1,200,000 and other purchase costs totaling \$7,172 have been capitalized and are being depreciated over a forty year period. During 2014 grades Kindergarten through 3 were located at this site.

In order to finance a multi-million dollar expansion project, PC 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 arrangement. PC leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was returned to the ownership of PC (See Note XII). 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.

IX. West 54th Street Building Purchase

In order to finance a multi-million dollar expansion project during fiscal year 2008 the building and land located at 5983 West 54th Street in Parma was purchased by The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. PC leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was turned over to the ownership of PC (See Note XII). The original purchase price and building improvements under the capitalized lease continue to be recognized as capital assets and are being depreciated over their remaining useful life. During 2014 grades 4 through 12 were located at this site.

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X. Pearl Road School Building Purchase

On February 5, 2014, PC purchased a school building located at 6125 Pearl Road, Parma to expand their program. The purchase price of \$520,000 and other purchase costs totaling \$2,898 have been capitalized and will be depreciated over a forty year period. On April 10, 2014 PC was reimbursed for the purchase price and other purchase costs with funds provided by a capital lease bond issue (See Note XII). The purchase price, other purchase costs and subsequent building improvements will continue to be recognized as capital assets and will be depreciated over their useful life. The building was placed in service in August 2014 as an elementary school housing grades kindergarten through 3.

XI. Construction Loan

On May 20, 2013, PC obtained a bridge loan with CF Bank to construct a six room addition on the West 54th Street building. Construction was completed during the summer of 2013 with the final draw disbursed on August 22, 2013. The total amount borrowed was \$677,605. Interest paid during the construction period was capitalized as part of the overall cost of the addition. Collateral, in the form of a cash money market account, was provided by the school which, along with interest earned, was disclosed in the financial statements as Cash-Restricted on June 30, 2013. The addition was placed in service in August 2013 and will be depreciated over the remaining useful life of the original building. On April 10, 2014 the loan was paid in full, along with interest due at the time, with funds provided by a capital lease bond issue (See Note XII).

XII. Capital Lease Bond Notes Payable

On April 10, 2014 PC closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). Underwriters' discounts totaling \$538,825 and original bond discounts of \$163,934 were deducted from the bond proceeds at issuance. A portion of the proceeds, along with escrow and reserve deposits from a prior bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due (See Note XIII). In addition, \$4,953,849 of the CCCPA bonds is financing multi-million dollar building acquisition, renovation and expansion projects to meet increasing demand for enrollment for the participating schools.

The properties are managed through annual lease and sub-lease arrangements. PC and the CCCPA secured mortgages on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, is at the rate of 5.00% per annum for the bonds maturing between 2015 and 2017 (Series B); 5.75% for the bonds maturing between 2018 and 2024 (Series A); 6.50% for the bonds maturing between 2025 and 2034(Series A); and 7.75% for the bonds maturing between 2035 and 2044

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(Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2014 is \$8,256,302 and interest payable due July 1, 2014 is \$117,940. Interest expense during 2014 totaled \$381,737. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14	Due In One Year
2008 Bonds	\$5,212,434	\$0	(\$5,212,434)	\$0	\$0
2014 Bonds:					
Series A	0	8,090,496	0	8,090,496	0
Series B	0	218,590	0	218,590	(47,226)
Bond Discount	0	(44,240)	456	(43,784)	0
TOTALS	<u>\$5,212,434</u>	<u>\$8,264,846</u>	<u>(\$5,211,978)</u>	<u>\$8,265,302</u>	<u>(\$47,226)</u>

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 bond issuance continue to be recognized as capital assets and are being depreciated over their remaining useful life. PC's share of bond issuance costs totaling \$369,430 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by \$693,327. Loss on refinancing is reported as "Unamortized Deferred Charges on Bond Refinancing" and is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. The original bond discount, which totaled \$44,240 for PC, is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. As of June 30, 2014 the unamortized balances for the cost to refinance and the bond discount are \$686,179 and \$43,784 respectively. The Bond Indenture requires PC to meet certain covenants. As of June 30, 2014 PC is in compliance with those covenants.

As part of the agreements for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for renovation and financing activities have been paid from these accounts through June 30, 2014. Lease payments were made by PC to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into a Debt Service Reserve Account to meet future debt service needs. Lease payments made during 2014 to fund interest, reserves and bond expenses totaled \$149,261.

The balances of escrow and reserve accounts as of June 30, 2014 are as follows:

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Project Fund	\$1,200,890
Bond Debt Service Account	134,393
Expense Fund	<u>12,453</u>
Total Bond Escrow Accounts	<u>\$1,347,736</u>

Debt Service Reserve	\$664,022
Operating Reserve	<u>10,451</u>
Total Bond Reserve Accounts	<u>\$674,473</u>

The assets refinanced and acquired through the capital lease as of June 30, 2014 are as follows:

Land	\$561,200
Construction in Progress	26,136
Building	2,668,869
Building Improvements	<u>2,365,203</u>
Sub-Total	5,621,408
Accumulated Depreciation	<u>(786,222)</u>
Net Book Value	<u>\$4,835,186</u>

Future minimum lease payments for principal and interest on the face value of the Series 2014 bonds (does not include amortization of the loss to refinance the Series 2008 bonds or the bond discount on the Series 2014 bonds) under the capital lease are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$47,226	\$392,534	\$439,760
2016	83,658	539,065	622,723
2017	87,706	534,882	622,588
2018	91,753	530,497	622,250
2019	97,151	525,221	622,372
2020 - 2024	761,014	2,515,701	3,276,715
2025 - 2029	1,028,178	2,254,491	3,282,669
2030 - 2034	1,416,781	1,872,884	3,289,665
2035 - 2039	1,960,556	1,337,766	3,298,322
2040 - 2044	<u>2,735,063</u>	<u>578,350</u>	<u>3,313,413</u>
Total	<u>\$8,309,086</u>	<u>\$11,081,391</u>	<u>\$19,390,477</u>

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XIII. Refunded Capital Lease Bond Notes Payable

On April 10, 2014 PC closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, \$22,004,213, along with escrow and reserve deposits from a prior bond issue, \$5,245,493, were used to advance refund the entire Constellation Schools Series 2008 Bonds issued by The Industrial Development Authority of the County of Pima (See Note XII). The refunding portion of the issue, along with the escrow and reserve accounts from the 2008 issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the bonds when they come due.

XIV. Risk Management

1. Property and Liability Insurance

PC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2014, PC contracted with Traveler's Property Casualty Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile insurance.

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

2. Workers' Compensation

PC makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by PC employees with the Ohio Worker's Compensation System between January 1, 2010 and June 30, 2014.

3. Employee Medical, Dental, Vision and Life Benefits

PC 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 PC for the fiscal year is \$500,425.

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XV. Defined Benefit Pension Plans

1. State Teachers Retirement System

PC 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

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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

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

PC's required contributions for pension obligations for the fiscal years ended June 30, 2014, 2013 and 2012 were \$429,654, \$423,179 and \$415,489 respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

PC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and PC is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. PC's contributions to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$58,167, \$37,024 and \$31,748, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County, Ohio

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

XVI. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2014, 2013 and 2012 PC's contributions to post-employment health care were \$33,050, \$32,552 and \$31,961, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2014 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2014, 2013 and 2012 PC contributions to Medicare Part B were \$3,158, \$1,957 and \$1,723, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers

CONSTELLATION SCHOOLS: PARMA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
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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, 2013 the health care allocation is 0.14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2014, 2013 and 2012 PC contributions to the Health Care Plan, including the surcharge were \$7,957, \$7,273 and \$6,669, respectively; 7.30% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012. \$7,376 representing the unpaid surcharge due for fiscal year 2014 is recorded as a liability within the respective funds.

XVII. Contingencies

1. Grants

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2014 are immaterial and are not reflected in the 2014 financial statements but will be included in the financial activity for fiscal year 2015.

XVIII. Sponsorship and Management Agreements

PC entered into an agreement with the ESC of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2019. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2014 Foundation payments received by PC, from the State of Ohio. The total amount due from PC for fiscal year 2014 was \$110,201 all of which was paid prior to June 30, 2014.

PC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2014. The agreement was for a period of one year, effective July 1, 2013. Management fees are calculated as 6.25% of the Fiscal Year 2014 Foundation Funds payment received by PC from the State of Ohio plus a fixed fee of \$400,000. The total fee cannot exceed twice the fixed fee. The total amount due from PC for the fiscal year ending June 30, 2014 was \$800,000 all of which was paid prior to June 30, 2014.

XIX. Net Restricted for Debt Purposes

Net restricted for debt purposes 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 is included in Escrow Accounts, is being held for construction purposes and was partially liquidated during the fiscal year. The Bond Debt Service Account and the Expense Fund, which are included in Escrow Accounts, along with the Debt Service Reserve and Operating Reserve Accounts, which are being held for bond financing reserve requirements, will continue to be funded until January 1, 2044.

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County, Ohio**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

XX. Subsequent Event

In February of 2014 PC entered into a group leasing agreement to lease technology equipment. As of October 30, 2014 PC has drawn \$278,709 as a part of the lease (there were no draws prior to July 1, 2014). The lease is scheduled to close to purchases during the month of November after which it will convert to a 48 month lease with an approximate interest rate of 2.15%.

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November 25, 2014

To the Board of Trustees
Constellation Schools: Parma Community
5983 West 54th Street
Parma, OH 44129

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Constellation Schools: Parma Community, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 25, 2014, wherein we noted the School implemented Governmental Accounting Standards Board (GASB) Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" and restated their June 30, 2013 net position.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Constellation Schools: Parma Community
Independent Auditors 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*

Page 2

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio

November 25, 2014

To the Board of Trustees
Constellation Schools: Parma Community
5983 West 54th Street
Parma, OH 44129

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

Report on Compliance for Each Major Federal Program

We have audited the Constellation Schools: Parma Community, Cuyahoga County, Ohio (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2014. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Cash Receipts	Cash Disbursements
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2014	\$ 381,214	\$ 404,920
Title I	84.010	2013	26,758	11,200
Total Title I			407,972	416,120
IDEA Part B	84.027	2014	223,263	231,343
IDEA Part B	84.027	2013	4,729	0
Total IDEA Part B			227,992	231,343
Improving Teacher Quality	84.367	2014	5,554	5,583
ARRA - Race to the Top	84.395	2014	63,857	63,857
ARRA - Race to the Top	84.395	2013	3,082	0
ARRA - Race to the Top - Resident Educator Program	84.395	2014	2,450	2,450
Total ARRA Race to the Top			69,389	66,307
<i>Total U.S. Department of Education</i>			710,907	719,353
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program (B)	10.553	2014	40,306	40,306
National School Lunch Program (B)	10.555	2014	127,027	127,027
Total Child Nutrition Cluster			167,333	167,333
<i>Total U.S. Department of Agriculture</i>			167,333	167,333
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 878,240	\$ 886,686

See the Notes to the Schedule of Expenditures of Federal Awards.

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2014*

- (A) The accompanying schedule of expenditures of federal awards includes the federal grant activity of Constellation Schools: Parma Community and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- (B) Federal money is commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I	CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



Dave Yost • Auditor of State

PARMA COMMUNITY

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
DECEMBER 30, 2014**