

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY  
ELEMENTARY  
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: Stockyard Community Elementary  
3200 West 65th Street  
Cleveland, Ohio 44102

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Stockyard Community Elementary, 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: Stockyard Community Elementary 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: STOCKYARD COMMUNITY ELEMENTARY  
CUYAHOGA COUNTY, OHIO**

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## INDEPENDENT AUDITOR'S REPORT

November 25, 2014

To the Board of Trustees  
Constellation Schools: Stockyard Community Elementary  
3200 West 65<sup>th</sup> Street  
Cleveland, OH 44102

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Constellation Schools: Stockyard Community Elementary, 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.

*Rea & Associates, Inc.*

Medina, Ohio

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# **CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY**

## **Management's Discussion and Analysis**

For the Year Ended June 30, 2014

The discussion and analysis of Constellation Schools: Stockyard Community Elementary (SCE) 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 SCE 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 SCE.

### **Financial Highlights**

Key financial highlights for 2014 include the following:

- On April 10, 2014 SCE 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, acquire title to the land and buildings SCE operates from, improve debt covenants from the prior bond issue and complete ongoing building renovations and construction.
- In total, net position increased \$29,212, which represents a 3.3% increase from 2013. A moderate revenue increase along with operating expense increases were offset by bond refinance fees of \$195,026.
- Total assets and deferred outflow of resources increased \$1,586,476, which represents a 44.1% increase from 2013. This is due to increased cash from the realization of net income for the year and a net increase in bond escrow and deferred outflows of resources.
- Liabilities increased \$1,557,264 which represents a 57.6% increase from 2013. Increases of bonds payable, loans payable and leases payable were offset by decreases in vendor payables, bond fees payable, notes payable and bond interest payable.
- Operating revenues increased by \$133,114, which represents a 5.8% increase from 2013. This is a direct result of State Foundation Aid increases from 2013. A full year of Casino Tax revenues were received during 2014.
- Expenses increased by \$107,827 which represents a 3.8% increase from 2013. Operating expense decreases due to changes in staffing and benefits, special education, student services, text books, supplies, equipment, facility management were offset by increases in bond fees.
- Non-operating revenues decreased by \$78,521, which represents a 13.1% decrease from 2013. This decrease is due to reduced receipts for federal grant programs and the settlement of a property loss insurance claim for \$19,095 in the prior year.

### **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: STOCKYARD COMMUNITY ELEMENTARY

## 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 SCE 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 SCE.

	<u>2014</u>	<u>Restated 2013</u>	<u>Change</u>	<u>%</u>
<b>Assets</b>				
Cash	\$876,015	\$649,982	\$226,033	34.8%
Other Current Assets	1,322,218	128,869	1,193,349	926.0%
Non-Current Assets	360,901	521,827	(160,926)	-30.8%
Capital Assets	2,282,799	2,293,786	(10,987)	-0.5%
Deferred Outflow of Resources	339,007	0	339,007	100.0%
Total Assets and Deferred Outflow of Resources	<u>5,180,940</u>	<u>3,594,464</u>	<u>1,586,476</u>	<u>44.1%</u>
<b>Liabilities</b>				
Current Liabilities	123,805	160,599	(36,794)	-22.9%
Long-Term Liabilities	<u>4,138,561</u>	<u>2,544,503</u>	<u>1,594,058</u>	<u>62.6%</u>
Total Liabilities	<u>4,262,366</u>	<u>2,705,102</u>	<u>1,557,264</u>	<u>57.6%</u>
<b>Net Position</b>				
Net Investment in Capital Assets Net Restricted for Debt Purposes	(20,528)	96,092	(116,620)	-121.4%
Unrestricted	<u>859,798</u>	<u>571,894</u>	<u>287,904</u>	<u>50.3%</u>
Total Net Position	<u>\$918,574</u>	<u>\$889,362</u>	<u>\$29,212</u>	<u>3.3%</u>

Net Position increased \$29,212, due to a combination of revenue increases and carefully managed operating expenses in 2014. Cash increased \$226,033; bond escrow accounts increased \$1,176,596; accounts receivable increased \$10,883; due from other governments increased \$5,871; bond reserve accounts decreased \$161,059; deferred outflow of resources increased \$339,007, security deposits increased \$132 and net capital assets decreased \$10,987 from 2013. Accounts payable decreased \$13,665; interest payable decreased \$30,635; unearned revenues (previously deferred revenues) decreased \$685; loans payable increased \$65,856; equipment leases payable increased \$260 and bonds payable increased \$1,536,133 from 2013.

# CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY

## 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 SCE for fiscal years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>Restated 2013</u>	<u>Change</u>	<u>%</u>
<b>Revenues</b>				
Foundation and Poverty Based Assistance Revenues	\$2,345,488	\$2,237,924	\$107,564	4.8%
Other Operating Revenues	78,307	52,757	25,550	48.4%
Total Operating Revenues	<u>2,423,795</u>	<u>2,290,681</u>	<u>133,114</u>	<u>5.8%</u>
Interest Income	80	66	14	21.2%
Federal and State Grants	520,797	580,737	(59,940)	-10.3%
Private Grants and Contributions	500	0	500	100.0%
Insurance Proceeds	0	19,095	(19,095)	-100.0%
Total Non-Operating Revenues	<u>521,377</u>	<u>599,898</u>	<u>(78,521)</u>	<u>-13.1%</u>
Total Revenues	<u>2,945,172</u>	<u>2,890,579</u>	<u>54,593</u>	<u>1.9%</u>
<b>Expenses</b>				
Salaries	1,052,681	1,092,576	(39,895)	-3.7%
Fringe Benefits	347,287	351,594	(4,307)	-1.2%
Purchased Services	870,983	934,060	(63,077)	-6.8%
Materials and Supplies	79,979	99,000	(19,021)	-19.2%
Capital Outlay	6,644	24,984	(18,340)	-73.4%
Depreciation	89,031	73,890	15,141	20.5%
Other Expenses	469,355	232,029	237,326	102.3%
Total Expenses	<u>2,915,960</u>	<u>2,808,133</u>	<u>107,827</u>	<u>3.8%</u>
Changes in Net Position	<u>29,212</u>	<u>82,446</u>	<u>(53,234)</u>	<u>-64.6%</u>
Net Position: Beginning of the Year	<u>889,362</u>	<u>806,916</u>	<u>82,446</u>	<u>10.2%</u>
Net Position: End of Year	<u>\$918,574</u>	<u>\$889,362</u>	<u>\$29,212</u>	<u>3.3%</u>

# CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2014

Net Position increased in both fiscal years ending June 30, 2014 and 2013. This is due to a combination of bond fees, enrollment changes, federal grant programs and carefully managing operating expenditures in both years 2013 and 2014. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease, other costs remain fixed such as facilities costs resulting in more efficient operations.

Overall, revenues increased by \$54,593 from 2013 to 2014. The most significant changes in revenues are increases of \$99,058 from State Foundation and Poverty Based Assistance funds, increased Casino tax revenues of \$8,506 and decreases in Federal Funds totaling \$60,421. Other revenues also decreased during the year due primarily to reductions in services provided to other schools. Proceeds from an insurance claim totaling \$19,095 for property damages were received in 2013.

Overall expenses increased from 2013 to 2014. This is a direct result of improved operating processes tied to normal annual increases in operating costs, student services, facility operations and supply purchases offset by increases in bond fees. Salaries and Fringe Benefits decreased \$44,202 due to staff reductions, regular annual increases and health insurance increases. Purchased services decreased by \$63,077 due to improved operating processes regarding pupil instruction and support services, special education services, professional development, administrative services and occupancy costs. Materials and Supplies decreased by \$19,021 due to reduced purchases of consumable supplies, textbooks and software. Capital Outlay decreased \$18,340 due to reduced purchases of technology and equipment. Depreciation increased \$15,141. Other Expenses increased \$237,326 due primarily to bond fees.

### Capital Assets

As of June 30, 2014, SCE had \$2,282,799 invested in land, construction in progress, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a \$10,987 decrease from June 30, 2013.

The following schedule provides a summary of Capital Assets as of June 30, 2014 and 2013 for SCE.

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
<b>Capital Assets (net of depreciation)</b>				
Land	\$380,000	\$380,000	\$0	0.0%
Construction in Process	3,000	0	3,000	100.0%
Building	477,375	491,625	(14,250)	-2.9%
Building Improvements	1,310,364	1,348,025	(37,661)	-2.8%
Technology and Software	77,717	30,161	47,556	157.7%
Furniture and Equipment	<u>34,343</u>	<u>43,975</u>	<u>(9,632)</u>	<u>-21.9%</u>
Net Capital Assets	<u>\$2,282,799</u>	<u>\$2,293,786</u>	<u>(\$10,987)</u>	<u>-0.5%</u>

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

# **CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY**

## **Management's Discussion and Analysis**

For the Year Ended June 30, 2014

### **Bond Debt Service**

On April 10, 2014 SCE 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 SCE to acquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at SCE. SCE 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 \$4,110,656. For more information on debt service see the Notes to the Financial Statements.

### **Equipment Financing**

During fiscal year 2012, SCE entered into a lease agreement with Winthrop Resources Corporation for \$13,770 worth of technology equipment. 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.

During fiscal year 2013, SCE entered into another lease agreement with Winthrop Resources Corporation for \$4,711 worth of technology equipment. The lease term is for a total of 36 months, carries an interest rate of 0.50% per annum and will expire in October 2016.

The lease values have been recorded as capital equipment to recognize the assets, and as capital equipment lease payables to recognize the lease debt. The outstanding principal value as of June 30, 2014 on the combined leases payable is \$9,609.

During fiscal year 2014, SCE secured a four year loan with CF Bank to purchase \$77,982 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 \$65,856.

### **Current Financial Issues**

Constellation Schools: Stockyard Community Elementary opened in the fall of 2004. The school has grown from 35 students, three teaching staff members and expenses of \$410,613 to a total of 284 students, 25 teaching staff members and expenses of \$2,915,960. SCE exercised its' purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima. Title to the property was transferred to SCE during 2014 as part of the bond refinancing with the CCCPA.

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.

# **CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2014

## **Contacting the School's Financial Management**

This financial report is designed to provide our constituents with a general overview of the finances for SCE 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](mailto:babb.thomas@constellationschools.com); by calling 216.712.7600; or by faxing 216.712.7601.

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

**Assets:**

**Current Assets:**

Cash	\$876,015
Escrow Accounts	1,287,654
Accounts Receivable	10,884
Due from Other Governments	23,680
<i>Total Current Assets</i>	2,198,233

**Non-Current Assets:**

Security Deposit	25,464
Bond Reserve Accounts	335,437
Non-Depreciable Capital Assets	383,000
Capital Assets (Net of Accumulated Depreciation)	1,899,799
<i>Total Non-Current Assets</i>	2,643,700
<i>Total Assets</i>	4,841,933

**Deferred Outflow of Resources:**

Unamortized Deferred Charges on Bond Refinancing	339,007
<i>Total Deferred Outflow of Resources</i>	339,007

<i>Total Assets and Deferred Outflow of Resources</i>	5,180,940
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**Liabilities:**

**Current Liabilities:**

Accounts Payable	13,574
Interest Payable	58,744
Unearned Revenue	3,927
Loan Payable	18,835
Capital Lease Equipment Payable	5,238
Capital Lease Bond Notes Payable	23,487
<i>Total Current Liabilities</i>	123,805

**Long Term Liabilities:**

Loan Payable	47,021
Capital Lease Equipment Payable	4,371
Capital Lease Bond Notes Payable	4,087,169
<i>Total Long Term Liabilities</i>	4,138,561
<i>Total Liabilities</i>	4,262,366

**Net Position:**

Net Investment in Capital Assets	(20,528)
Net Restricted for Debt Purposes	79,304
Unrestricted	859,798
<i>Total Net Position</i>	\$918,574

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

**Constellation Schools: Stockyard Community Elementary  
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	\$2,345,488
Other Operating Revenues	78,307
<i>Total Operating Revenues</i>	<u>2,423,795</u>

**Operating Expenses:**

Salaries	1,052,681
Fringe Benefits	347,287
Purchased Services	870,983
Materials and Supplies	79,979
Capital Outlay	6,644
Depreciation	89,031
Other Operating Expenses	75,501
<i>Total Operating Expenses</i>	<u>2,522,106</u>

Operating Loss	<u>(98,311)</u>
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**Non-Operating Revenues & Expenses:**

Interest Income	80
Interest Expense	(198,828)
Bond Issuance Fees	(195,026)
Federal and State Grants	520,797
Private Grants and Contributions	500
<i>Total Non-Operating Revenues &amp; Expenses</i>	<u>127,523</u>

Change in Net Position	<u>29,212</u>
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Net Position at Beginning of the Year - Restated (See Note II.3)	<u>889,362</u>
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Net Position at End of Year	<u><u>\$918,574</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Stockyard Community Elementary**  
**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	\$2,345,488
Cash Payments to Suppliers for Goods and Services	(1,403,219)
Cash Payments to Employees for Services	(1,052,681)
Other Operating Revenues	<u>77,622</u>
Net Cash Used for Operating Activities	<u>(32,790)</u>

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions Received	500
Federal and State Grants Received	<u>524,087</u>
Net Cash Provided by Noncapital Financing Activities	<u>524,587</u>

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

Payments for Capital Acquisitions	(88,928)
Bond Issuance Fees	(195,026)
Bond Issue Proceeds	4,132,432
Bond Issue Discount	(22,002)
Increase in Escrow Funds	(1,176,596)
Decrease in Bond Reserve Accounts	161,059
Payments to Escrow Agent	(2,881,102)
Bond Principal Payments	(35,959)
Bond Interest Payments	(222,731)
Proceeds for Equipment Lease	4,711
Equipment Lease Principal Payments	(4,451)
Equipment Lease Interest Payments	(590)
Proceeds From Loans Payable	77,982
Loan Principal Payments	(12,126)
Loan Interest Payments	(2,385)
Increase in Security Deposit	<u>(132)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(265,844)</u>

**Cash Flows from Investing Activities**

Interest	<u>80</u>
Net Cash Provided by Investing Activities	<u>80</u>

Net Increase in Cash	226,033
Cash at Beginning of Year	<u>649,982</u>
Cash at End of Year	<u><u>\$876,015</u></u>

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

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

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

Operating Loss	(\$98,311)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation	89,031
Capial Asset Returned for Refund	10,883

Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(10,883)
(Increase) in Due from Other Governments	(9,903)
(Decrease) in Accounts Payable	(12,922)
(Decrease) in Unearned Revenue	(685)

Total Adjustments	65,521
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Net Cash Used for Operating Activities	(\$32,790)
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The accompanying notes to the financial statements are an integral part of this statement.

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY**

**- A Community School -  
Cuyahoga County, Ohio**

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

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

Constellation Schools: Stockyard Community Elementary (SCE), is a nonprofit corporation established on October 17, 2001 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On May 5, 2003, SCE (as Lorain-Southside Community 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 SCE. SCE, which is part of Ohio's education program, is independent of any school district. SCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of SCE.

SCE was approved for operation under a contract between the Governing Authority of SCE and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 SCE entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2015. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XV for further discussion of the sponsor services.

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

SCE 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 SCE instructional facility staffed by twenty-five certificated full time teaching personnel and nine support staff who provide services to 284 students. During 2014, the board members for SCE also serve as the board for Constellation Schools: Westpark Community Elementary, Constellation Schools: Mansfield Community Elementary, Constellation Schools: Puritas Community Elementary and Constellation Schools: Madison Community Elementary.

**II. Summary of Significant Accounting Policies**

The financial statements of SCE 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

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standard setting body for establishing governmental accounting and financial reporting principles. The more significant of SCE'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, 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. SCE 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 SCE 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 SCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to SCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Change in Accounting Principles**

For 2014, SCE 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

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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 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 SCE as follows:

Net Position Previously Reported as of June 30, 2013	\$1,213,013
Removal of Unamortized Bond Issuance Costs	<u>(323,651)</u>
Restated Net Position at July 1, 2013	<u><u>\$889,362</u></u>

**4. Cash**

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

**5. Budgetary Process**

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

**6. Due From Other Governments and Accounts Receivable**

Monies due SCE for the year ended June 30, 2014 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.

**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, computers, technology and furniture and equipment is computed using the straight line method over their estimated useful lives.

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Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets or less. Estimated useful lives are as follows:

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

**8. Intergovernmental Revenues**

SCE currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. SCE 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 \$2,866,285.

**9. Private Grants and Contributions**

SCE 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 \$500.

**10. Compensated Absences**

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

**III. Deposits**

At fiscal year end June 30, 2014, the carrying amount of SCE's deposits totaled \$876,015 and its bank balance was \$900,787. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2014, \$650,787, of the 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 SCE and the Cleveland Cuyahoga County Port Authority totaled \$1,623,091 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, SCE will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of SCE.

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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	\$380,000	\$0	\$0	\$380,000
Construction in Process	0	3,000	0	3,000
Total Capital Assets Not Being Depreciated:	<u>380,000</u>	<u>3,000</u>	<u>0</u>	<u>383,000</u>
Capital Assets Being Depreciated:				
Building	570,000	0	0	570,000
Building Improvements	1,474,424	2,235	0	1,476,659
Technology and Software	125,195	82,693	(21,410)	186,478
Furniture and Equipment	104,292	1,000	0	105,292
Total Capital Assets Being Depreciated	<u>2,273,911</u>	<u>85,928</u>	<u>(21,410)</u>	<u>2,338,429</u>
Less Accumulated Depreciated:				
Building	(78,375)	(14,250)	0	(92,625)
Building Improvements	(126,399)	(39,896)	0	(166,295)
Technology and Software	(95,034)	(24,253)	10,526	(108,761)
Furniture and Equipment	(60,317)	(10,632)	0	(70,949)
Total Accumulated Depreciation	<u>(360,125)</u>	<u>(89,031)</u>	<u>10,526</u>	<u>(438,630)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>1,913,786</u>	<u>(3,103)</u>	<u>(10,884)</u>	<u>1,899,799</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$2,293,786</u>	<u>(\$103)</u>	<u>(\$10,884)</u>	<u>\$2,282,799</u>

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**V. Purchased Services**

Purchased Services include the following:

Instruction	\$121,199
Pupil Support Services	98,442
Staff Development & Support	19,805
Administrative	362,855
Occupancy Costs	147,952
Food Services	<u>120,730</u>
 Total Purchased Services	 <u><u>\$870,983</u></u>

**VI. Loan Payable**

During fiscal year 2014, SCE secured a four year loan with CF Bank to purchase \$77,982 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 \$12,126 and interest paid totaled \$2,385. Future minimum loan payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2015	\$18,835	\$2,314	\$21,149
2016	19,611	1,538	21,149
2017	20,419	730	21,149
2018	<u>6,991</u>	<u>59</u>	<u>7,050</u>
Total	<u><u>\$65,856</u></u>	<u><u>\$4,641</u></u>	<u><u>\$70,497</u></u>

**VII. Capital Equipment Lease Payable**

During fiscal year 2012, SCE 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. Assets of technology equipment totaling \$13,770 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 \$3,410 and interest paid totaled \$577.

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On September 30, 2013, SCE entered into a three 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. Assets of technology equipment totaling \$4,711 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 \$1,041 and interest paid at a rate of 0.50% totaled \$13.

Future minimum lease payments for principal and interest under both capital leases are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$5,238	\$330	\$5,568
2016	3,845	62	3,907
2017	<u>526</u>	<u>1</u>	<u>527</u>
Total	<u>\$9,609</u>	<u>\$393</u>	<u>\$10,002</u>

**VIII. School Building Purchase**

In order to finance a multi-million dollar expansion project during fiscal year 2008 the building and land located at 3200 West 65<sup>th</sup> Street in Cleveland was purchased by The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. SCE 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 SCE (See Note IX). 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.

**IX. Capital Lease Bond Notes Payable**

On April 10, 2014 SCE 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 X). 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.

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The properties are managed through annual lease and sub-lease arrangements. SCE 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 (Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2014 is \$4,110,656 and interest payable due July 1, 2014 is \$58,604. Interest expense during 2014 totaled \$195,771. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	<u>Balance</u> <u>6/30/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/14</u>	<u>Due In</u> <u>One Year</u>
2008 Bonds	\$2,574,523	\$0	(\$2,574,523)	\$0	\$0
2014 Bonds:					
Series A	0	4,023,720	0	4,023,720	0
Series B	0	108,712	0	108,712	23,487
Bond Discount	<u>0</u>	<u>(22,002)</u>	<u>226</u>	<u>(21,776)</u>	<u>0</u>
TOTALS	<u>\$2,574,523</u>	<u>\$4,110,430</u>	<u>(\$2,574,297)</u>	<u>\$4,110,656</u>	<u>\$23,487</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. SCE's share of bond issuance costs totaling \$195,026 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by \$342,538. 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 \$22,002 for SCE, 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 \$339,007 and \$21,776 respectively. The Bond Indenture requires SCE to meet certain covenants. As of June 30, 2014 SCE is in compliance with those covenants.

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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 SCE 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 \$74,167. The balances of escrow and reserve accounts as of June 30, 2014 are as follows:

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

Project Fund	\$1,214,684
Bond Debt Service Account	66,779
Expense Fund	<u>6,191</u>
Total Bond Escrow Accounts	<u>\$1,287,654</u>
Debt Service Reserve	\$330,244
Operating Reserve	<u>5,193</u>
Total Bond Reserve Accounts	<u>\$335,437</u>

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

Land	\$380,000
Construction in Progress	3,000
Building	570,000
Building Improvements	<u>1,476,659</u>
Sub-Total	<u>2,429,659</u>
Accumulated Depreciation	<u>(258,920)</u>
Net Book Value	<u>\$2,170,739</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:

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Year	Principal	Interest	Total
2015	\$23,487	\$195,222	\$218,709
2016	41,606	268,098	309,704
2017	43,619	266,018	309,637
2018	45,633	263,837	309,470
2019	48,317	261,213	309,530
2020 - 2024	378,482	1,251,156	1,629,638
2025 - 2029	511,353	1,121,246	1,632,599
2030 - 2034	704,621	931,458	1,636,079
2035 - 2039	975,061	665,323	1,640,384
2040 - 2044	<u>1,360,253</u>	<u>287,636</u>	<u>1,647,889</u>
Total	<u>\$4,132,432</u>	<u>\$5,511,207</u>	<u>\$9,643,639</u>

**X. Refunded Capital Lease Bond Notes Payable**

On April 10, 2014 SCE 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 IX). 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.

**XI. Risk Management**

**1. Property and Liability Insurance**

SCE 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, SCE 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.

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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**

SCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been six claims filed by SCE employees with the Ohio Worker's Compensation System between January 1, 2010 and June 30, 2014. The total payments made for these claims have been \$1,541. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of SCE as June 30, 2014.

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

SCE 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 SCE for the fiscal year is \$160,928.

**XII. Defined Benefit Pension Plans**

**1. State Teachers Retirement System**

SCE 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](http://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

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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 31<sup>st</sup> 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.

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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 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%.

SCE's required contributions for pension obligations for the fiscal years ended June 30, 2014, 2013 and 2012 were \$115,742, \$128,157 and \$129,118 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**

SCE 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

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY**  
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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](http://www.ohsers.org) under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and SCE 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. SCE's contributions to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$22,730, \$14,945 and \$14,779, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

**XIII. 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 SCE's contributions to post-employment health care were \$8,903, \$9,858 and \$9,932, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY**

**- A Community School -  
Cuyahoga County, Ohio**

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**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 SCE contributions to Medicare Part B were \$1,234, \$790 and \$802, 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 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

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Fund. For the fiscal years ended June 30, 2014, 2013 and 2012 SCE contributions to the Health Care Plan, including the surcharge were \$7,473 \$2,207 and \$3,105 , respectively; 3.04% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012. \$7,246 representing the unpaid surcharge due for fiscal year 2014 is recorded as a liability within the respective funds.

**XIV. Contingencies**

**1. Grants**

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

**XV. Sponsorship and Management Agreements**

SCE 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, 2017. Sponsorship fees are calculated as 2.0% of the Fiscal Year 2014 Foundation payments received by SCE, from the State of Ohio. The total amount due from SCE for fiscal year 2014 was \$46,096, all of which was paid prior to June 30, 2014.

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Cuyahoga County, Ohio**

**NOTES TO THE FINANCIAL STATEMENTS  
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SCE 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 payment received by SCE from the State of Ohio plus a fixed fee of \$144,375. The total fee cannot exceed twice the fixed fee. The total amount due from SCE for the fiscal year ending June 30, 2014 was \$288,750 all of which was paid prior to June 30, 2014.

**XVI. 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.

**XVII. Subsequent Events**

During July of 2014 SCE obtained a loan to purchase technology equipment in an amount up to \$21,000. As of October 30, 2014 SCE has drawn \$5,750 of the available loan amount. The loan is scheduled to close to purchases by the end of December after which it will convert to a 48 month loan with an interest rate of 3.99%.

November 25, 2014

To the Board of Trustees  
Constellation Schools: Stockyard Community Elementary  
3200 West 65<sup>th</sup> Street  
Cleveland, OH 44102

**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: Stockyard Community Elementary, 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.

### **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: Stockyard Community Elementary  
3200 West 65<sup>th</sup> Street  
Cleveland, OH 44102

**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: Stockyard Community Elementary, 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.

*Rea & Associates, Inc.*

Medina, Ohio

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY  
 CUYAHOGA COUNTY, OHIO  
 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
<b>U. S. Department of Education</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2014	\$ 227,782	\$ 244,977
Title I	84.010	2013	29,775	15,700
Total Title I			257,557	260,677
IDEA Part B	84.027	2014	65,825	72,573
Improving Teacher Quality	84.367	2014	2,186	2,600
Improving Teacher Quality	84.367	2013	105	0
Total Improving Teacher Quality			2,291	2,600
ARRA - Race to the Top	84.395	2014	22,364	22,364
ARRA - Race to the Top	84.395	2013	3,164	0
ARRA - Race to the Top - Resident Educator Program	84.395	2014	700	700
Total ARRA Race to the Top			26,228	23,064
Title III LEP	84.365	2014	3,384	3,384
Title III LEP	84.365	2013	571	0
Total Title III LEP			3,955	3,384
<i>Total U.S. Department of Education</i>			355,856	362,298
<b>U. S. Department of Agriculture</b>				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program (B)	10.553	2014	45,643	45,643
National School Lunch Program (B)	10.555	2014	116,973	116,973
Total Child Nutrition Cluster			162,616	162,616
<i>Total U.S. Department of Agriculture</i>			162,616	162,616
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			\$ 518,472	\$ 524,914

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

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY  
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: Stockyard Community Elementary 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.
- (C) The Community School generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE’s approval, a school can transfer unspent Federal assistance to the succeeding year, thus allowing the school a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year’s activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2014, the Ohio Department of Education (ODE) authorized the following transfers:

CFDA Number / Grant Title	Grant Year	Transfer In	Transfer Out
84.367 Improving Teacher Quality	2014	\$ 390	
84.367 Improving Teacher Quality	2013		\$ 390
84.027 IDEA – Part B	2014	319	
84.027 IDEA – Part B	2013		319

**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY  
CUYAHOGA COUNTY, OHIO**

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

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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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

**STOCKYARD 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  
DECEMBER 30, 2014**