CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

Constellation Schools

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

Board of Trustees
Constellation Schools: Puritas Community Elementary
15204 Puritas Avenue
Cleveland, OH 44135

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Puritas Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. 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: Puritas Community Elementary is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

January 25, 2016

CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO

TABLE OF CONTENTS

November 24, 2015

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Constellation Schools: Parma Community, Cuyahoga County, Ohio, (the "School") as of and for the year ended June 30, 2015, 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 entity'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 entity'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.

Opinions

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, 2015, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note II.3, the School restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*." 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* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School's Contributions* on pages 5–12, 41, and 42-43, respectively, 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 an opinion on the financial statements that collectively comprise the School's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by the 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 is 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 24, 2015 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.

Cambridge, Ohio

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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, 2015. 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 2015 include the following:

- During 2015 PC expended $688,214 of the April 2014 bond refinance proceeds for building improvements. A total of $512,796 remains in the project fund as of June 30, 2015 for additional building improvements.

- In total, net position increased $619,789, which represents a 7.1% increase from 2014. Increases in revenues due to increased enrollment were offset by higher operating costs. Decreases in pension liabilities and a one-time payment of bond fees to refinance a bond issue in 2014 also account for a portion on this increase.

- Total assets and deferred outflow of resources increased $1,050,666, which is a 10.4% increase from 2014. This is due to increased cash from operations, changes in bond escrow and reserve accounts; increases in capital assets from building construction and increases in deferred outflows of resources.

- Liabilities and deferred inflow of resources increased $430,877 which represents a 2.3% increase from 2014. Increases in vendor payables, bond interest payable, bond fees payable and deferred inflows of resources were offset by decreases in bonds payable, unearned revenues and net pension liability during the year.

- Operating revenues increased by $1,172,654, which represents a 14.7% increase from 2014. This is a direct result of enrollment increases from 2014.

- Expenses increased by $818,341 which represents a 9.6% increase from 2014. Operating expense increases are due to additional staff, services, materials, supplies and equipment which were partially offset by reductions in bond refinancing fees and pension expense from changes in net pension liability.

- Non-operating revenues decreased by $65,889, which represents a 7.5% decrease from 2014. Decreases occurred in federal grants programs and in private grants and contributions.

- During 2015, PC implemented GASB 68, which requires changes in the manner for which pension expenses and liabilities are reported. Net Position balances for 2014 were restated and pension expenses during 2015 were reduced.

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.

Statement of Net Position

The Statement of Net Position looks at how well PC has performed financially through June 30, 2015. This statement includes all of the assets, deferred outflow of resources, liabilities, deferred inflows of resources 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, 2015 and 2014 for PC.

		Restated		
	2015	**2014**	**Change**	**%**
Assets				
Cash	$2,371,602	$1,814,621	$556,981	30.7%
Other Current Assets	915,390	1,404,219	(488,829)	-34.8%
Non-Current Assets	738,473	701,394	37,079	5.3%
Capital Assets	5,790,391	4,970,227	820,164	16.5%
Deferred Outflow of Resources	1,302,429	1,177,158	125,271	10.6%
Total Assets and Deferred Outflow of Resources	11,118,285	10,067,619	1,050,666	10.4%
Liabilities				
Current Liabilities	635,145	291,728	343,417	117.7%
Long-Term Liabilities	17,054,282	18,552,436	(1,498,154)	-8.1%
Deferred Inflow of Resources	1,585,614	0	1,585,614	100.0%
Total Liabilities and Deferred Inflow of Resources	19,275,041	18,844,164	430,877	2.3%
Net Position				
Net Investment in Capital Assets	(980,939)	(805,554)	(175,385)	21.8%
Net Restricted for Debt Purposes	372,173	159,591	212,582	133.2%
Unrestricted	(7,547,990)	(8,130,582)	582,592	-7.2%
Total Net Position	($8,156,756)	($8,776,545)	$619,789	7.1%

Net Position increased $619,789, due to enrollment, pension liability decreases recording pension expense and decreases in bond fees offset by higher operating costs. Cash increased $556,981; bond escrow accounts decreased $516,113; due from other governments increased

$27,284; security deposits increased $113; bond reserve accounts increased $36,966; net capital assets increased $820,164 and deferred outflow of resources increased $125,271 from 2014. Accounts payable increased $53,144; interest payable increased $151,932; due other governments increased $12,698; unearned revenues decreased $3,807; loans payable decreased $7,129; equipment lease payable increased $327,760; capital lease bonds decreased $45,402; net pension liability decreased $1,643,933 and deferred inflow of resources increased $1,585,614 from 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, 2015. 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, 2015 and 2014.

	2015	2014	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$8,644,876	$7,498,256	$1,146,620	15.3%
Other Operating Revenues	488,260	462,226	26,034	5.6%
Total Operating Revenues	9,133,136	7,960,482	1,172,654	14.7%
Interest Income	5,602	5,091	511	10.0%
Private Grants and Contributions	5,575	7,136	(1,561)	-21.9%
Federal and State Grants	800,902	865,741	(64,839)	-7.5%
Total Non-Operating Revenues	812,079	877,968	(65,889)	-7.5%
Total Revenues	9,945,215	8,838,450	1,106,765	12.5%
Expenses				
Salaries	4,150,481	3,720,509	429,972	11.6%
Fringe Benefits	1,307,668	1,118,534	189,134	16.9%
Change in Net Pension Liability	(212,181)	0	(212,181)	100.0%
Purchased Services	2,578,465	2,182,929	395,536	18.1%
Materials and Supplies	390,573	252,798	137,775	54.5%
Capital Outlay	96,140	51,610	44,530	86.3%
Depreciation and Amortization	251,139	185,379	65,760	35.5%
Other Expenses	763,141	995,326	(232,185)	-23.3%
Total Expenses	9,325,426	8,507,085	818,341	9.6%
Changes in Net Position	$619,789	$331,365	$288,424	87.0%

Net Position increased in both fiscal years ended June 30, 2015 and 2014. 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 2014 to 2015 are increases of $1,146,620 in Foundation funding due to enrollment increases, materials fees of $45,037 and Services to other Schools of $13,803. Federal funding to the school passed through the state of Ohio decreased $70,491. Interest income increased $511; food service program revenues increased $6,481 and other income increased $23,124 due to the enrollment increases for the school. Contributions also decreased $1,561 in 2015.

Total expenses increased from 2014 to 2015 as a direct result of the enrollment increases, as well as changes in net pension liability resulting in a negative pension expense and fees paid to refinance the 2008 bond issue during 2014. Salaries and Fringe Benefits increased $619,106 due to additional staffing and annual increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68.Purchased services increased $395,536 due to increases in instruction services, field trips, student support services, professional development, management services and facility costs. Materials and Supplies increased $137,775 for purchases of classroom supplies and text books, and Capital Outlay increased $44,530 for the purchase of classroom technology, furniture and equipment. Depreciation increased $65,760 due to increases facilities additions. Other Expenses decreased $232,185 due to the bond refinancing mentioned above.

Capital Assets

As of June 30, 2015, PC had $5,790,391 invested in land, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is an $820,164 increase from June 30, 2014. The following schedule provides a summary of the School's Capital Assets as of June 30, 2015 and 2014.

	2015	2014	Change	%
Capital Assets (net of depreciation)				
Land	$561,200	$561,200	$0	0.0%
Construction in Process	0	26,136	(26,136)	-100.0%
Building	2,135,107	2,200,902	(65,795)	-3.0%
Building Improvements	2,649,621	2,046,948	602,673	29.4%
Technology and Software	380,556	63,304	317,252	501.2%
Furniture and Equipment	63,907	71,737	(7,830)	-10.9%
Net Capital Assets	$5,790,391	$4,970,227	$820,164	16.5%

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

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, 2015 is $8,219,900. For more information on debt service see the Notes to the Financial Statements.

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. On July 1, 2014 an additional $3,149 of technology equipment under the same leasing company was acquired from another school which closed and has an expiration date of October 2016. The outstanding principal value as of June 30, 2015 on the lease payable is $14,927.

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, 2015 on the loan payable is $17,797.

In February of 2014 PC entered into a group leasing agreement with Celtic Leasing to lease technology equipment. The lease, which closed March 1, 2015 with a balance for PC of $371,774 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 44 months, carries an interest rate of 1.72% per annum and will expire in November 2018 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2015 on the combined lease payable is $347,183.

Net Pension Liabilities

During 2015, PC adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of PC's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals PC's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, PC is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, PC's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, PC is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $1,035,916 to ($8,776,545).

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of $490,979 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required plan contributions. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $350,101. Consequently, in order to compare 2015 total program expense to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	$8,746,235
Pension expense under GASB 68	(350,101)
2015 contractually required contribution	562,282
Adjusted 2015 program expenses	8,958,416
Total 2014 program expenses under GASB 27	7,724,886
Increase in program expenses not related pension	$1,233,530

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 1,213 students, 103 teaching staff members and expenses of $9,325,426. 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 three buildings during the current year after opening the third building in August 2014.

The Board of Directors, school management and school staff continue to work diligently to ensure that PC maintains the highest level of educational services and financial integrity that we have always provided. Our goal continues to be providing 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, 2015

Current Assets:	
Cash	$2,371,602
Escrow Accounts	831,623
Accounts Receivable	38,709
Due from Other Governments	45,058
Total Current Assets	3,286,992
Non-Current Assets:	
Security Deposit	27,034
Bond Reserve Accounts	711,439
Non-Depreciable Capital Assets	561,200
Capital Assets (Net of Accumulated Depreciation)	5,229,191
Total Non-Current Assets	6,528,864
Total Assets	9,815,856
Deferred Outflow of Resources:	
Unamortized Deferred Charges on Bond Refinancing	657,588
Pension (STRS & SERS)	644,841
Total Deferred Outflow of Resources	1,302,429
Total Assets and Deferred Outflow of Resources	11,118,285
Current Liabilities:	
Accounts Payable	78,616
Interest Payable	270,118
Due to Other Governments	12,698
Unearned Revenue	68,681
Loan Payable	7,423
Capital Lease Equipment Payable	113,951
Capital Lease Bond Notes Payable	83,658
Total Current Liabilities	635,145
Long Term Liabilities:	
Loan Payable	10,374
Capital Lease Equipment Payable	248,159
Capital Lease Bond Notes Payable	8,136,242
Net Pension Liability	8,659,507
Total Long Term Liabilities	17,054,282
Total Liabilities	17,689,427
Deferred Inflow of Resources:	
Pension (STRS & SERS)	1,585,614
Total Deferred Inflow of Resources	1,585,614
Total Liabilities and Deferred Inflow of Resources	19,275,041
Net Position:	
Net Investment in Capital Assets	(980,939)
Net Restricted for Debt Purposes	372,173
Unrestricted	(7,547,990)
Total Net Position	($8,156,756)

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, 2015

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$8,644,876
Other Operating Revenues	488,260
Total Operating Revenues	9,133,136
Operating Expenses:	
Salaries	4,150,481
Fringe Benefits	1,307,668
Change in Net Pension Liability	(212,181)
Purchased Services	2,578,465
Materials and Supplies	390,573
Capital Outlay	96,140
Depreciation	251,139
Other Operating Expenses	183,950
Total Operating Expenses	8,746,235
Operating Income	386,901
Non-Operating Revenues & Expenses:	
Interest Income	5,602
Interest Expense	(579,191)
Federal and State Grants	800,902
Private Grants and Contributions	5,575
Total Non-Operating Revenues & Expenses	232,888
Change in Net Position	619,789
Net Position at Beginning of the Year - Restated (See Note II.3.)	(8,776,545)
Net Position at End of Year	($8,156,756)

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, 2015

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$8,636,292
Cash Payments to Suppliers for Goods and Services	(4,483,467)
Cash Payments to Employees for Services	(4,150,481)
Other Operating Revenues	484,453
Net Cash Provided by Operating Activities	486,797
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions Received	5,575
Federal and State Grants Received	774,715
Net Cash Provided by Noncapital Financing Activities	780,290
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(696,467)
Disposal of Capital Assets	87
Decrease in Escrow Funds	516,113
Increase in Bond Reserve Accounts	(36,966)
Bond Principal Payments	(47,226)
Bond Interest Payments	(392,534)
Equipment Lease Principal Payments	(47,163)
Equipment Lease Interest Payments	(3,434)
Loan Principal Payments	(7,129)
Loan Interest Payments	(876)
Increase in Security Deposits	(113)
Net Cash Used for Capital and Related Financing Activities	(715,708)
Cash Flows from Investing Activities	
Interest	5,602
Net Cash Provided by Investing Activities	5,602
Net Increase in Cash	556,981
Cash at Beginning of Year	1,814,621
Cash at End of Year	$2,371,602

Non Cash Transaction: At June 30, 2015 the school purchased $374,923 in capital assets on account.

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, 2015
(Continued)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$386,901
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	251,139
Changes in Assets and Liabilities:	
Decrease in Due from Other Governments	11,600
(Increase) in Deferred Outflows - Pensions	(153,862)
Increase in Accounts Payable	53,145
(Decrease) in Unearned Revenue	(3,807)
(Decrease) in Net Pension Liability	(1,643,933)
Increase in Deferred Inflows - Pensions	1,585,614
Total Adjustments	99,896
Net Cash Provided by Operating Activities	$486,797

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

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 XVII 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 XVII 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 103 certificated full time personnel and 25 support staff who provided services to 1,213 students. During 2015, 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.

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 and deferred inflows of resources 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 the fiscal year ended June 30, 2015, PC has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.*

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of PC.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position Previously Reported as of June 30, 2014	$1,035,916
Addition of Net Pension Liability	(10,303,440)
Addition of Deferred Outflow of Resources - Pension	490,979
Restated Net Position at July 1, 2014	($8,776,545)

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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, 2015 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 and construction in process. 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:

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 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 2015 school year totaled $9,445,778.

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 2015 school year totaled $5,575.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

12. 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.

13. 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.

14. Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of assets by PC that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then.

A deferred inflow of resources is an acquisition of assets by PC that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time.

When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. Deferred charges on refunding result from the difference in the carrying value of refunded debt to 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.

During 2015, PC implemented GASB 68 which requires recognition of the entire net pension liability along with a more comprehensive measure of pension activity during the year. The financial statements for 2015 include deferred outflow of resources, deferred inflows or resources, pension expenses and net pension liability

III. Deposits

At fiscal year end June 30, 2015, the carrying amount of PC's deposits totaled $2,371,602 and its bank balance was $2,528,787. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2015, $2,028,787 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 $1,543,062 at fiscal year end June 30, 2015. 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.

IV. Capital Assets

A summary of capital assets at June 30, 2015 follows:

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Capital Assets Not Being Depreciated:				
Land	$561,200	$0	$0	$561,200
Construction in Process	26,136	0	(26,136)	0
Total Capital Assets Not Being Depreciated:	587,336	0	(26,136)	561,200
Capital Assets Being Depreciated:				
Building	2,668,869	0	0	2,668,869
Building Improvements	2,365,203	714,743	0	3,079,946
Technology and Software	197,236	374,923	(38,747)	533,412
Furniture and Equipment	155,108	7,860	(4,751)	158,217
Total Capital Assets Being Depreciated	5,386,416	1,097,526	(43,498)	6,440,444
Less Accumulated Depreciation:				
Building	(467,967)	(65,795)	0	(533,762)
Building Improvements	(318,255)	(112,070)	0	(430,325)
Technology and Software	(133,932)	(57,671)	38,747	(152,856)
Furniture and Equipment	(83,371)	(15,603)	4,664	(94,310)
Total Accumulated Depreciation	(1,003,525)	(251,139)	43,411	(1,211,253)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	4,382,891	846,387	(87)	5,229,191
Total Capital Assets, Net of Accumulated Depreciation	$4,970,227	$846,387	($26,223)	$5,790,391

V. Purchased Services

Purchased Services include the following:

Instruction	$312,973
Pupil Support Services	487,852
Staff Development & Support	141,428
Administrative	1,114,720
Occupancy Costs	350,070
Transportation	12,513
Food Services	154,267
Student Activities	4,642
Total Purchased Services	$2,578,465

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 2015 totaled $7,129 and interest paid totaled $876. Future minimum loan payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2016	$7,423	$582	$8,005
2017	7,728	277	8,005
2018	2,646	22	2,668
Total	$17,797	$881	$18,678

VII. Capital Equipment Lease Payable

During fiscal year 2012, PC entered into a four year lease for technology equipment with Winthrop Leasing. On July 1, 2014 equipment that was under lease with Winthrop Leasing from another school that closed was transferred to PC. During fiscal year 2015, PC entered into a 44 month lease for additional technology equipment with Celtic Leasing. These leases meet the criteria of capital leases 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 $454,563 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 2015 totaled $47,163 and interest paid totaled $3,434. Future minimum lease payments for principal and interest under the capital lease are as follows:

	Winthrop			Celtic		
Year	Principal	Interest	Total	Principal	Interest	Total
2016	$14,475	$332	$14,807	$99,476	$5,752	$105,228
2017	452	1	453	101,237	3,991	105,228
2018	0	0	0	103,015	2,213	105,228
2019	0	0	0	43,455	190	43,645
Total	$14,927	$333	$15,260	$347,183	$12,146	$359,329

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 2015 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 XI). 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 XI). 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 2015 grades 4 through 12 were located at this site.

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 XI). 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. 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 XII). 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 (Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2015 is $8,219,900 and interest payable due July 1, 2015 is $269,532. Interest expense during 2015 totaled $372,534. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/14	Additions	Reductions	6/30/15	Due In One Year
Series A	$8,090,496	$0	$0	$8,090,496	$0
Series B	218,590	0	(47,226)	171,364	83,658
Bond Discount	(43,784)	0	1,824	(41,960)	0
TOTALS	$8,265,302	$0	($45,402)	$8,219,900	$83,658

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, 2015 the unamortized balances for the cost to refinance and the bond discount are $657,588 and $41,959 respectively. The Bond Indenture requires PC to meet certain covenants. As of June 30, 2015 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, 2015. 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 2015 to fund interest, reserves and bond expenses totaled $652,440.

The balances of escrow and reserve accounts as of June 30, 2015 are as follows:

Project Fund	$512,796
Bond Debt Service Account	288,654
Expense Fund	30,173
Total Bond Escrow Accounts	$831,623
Debt Service Reserve	$664,405
Operating Reserve	47,034
Total Bond Reserve Accounts	$711,439

The assets refinanced and acquired through the capital lease as of June 30, 2015 are as follows:

Land	$561,200
Building	2,668,869
Building Improvements	3,079,946
Sub-Total	6,310,015
Accumulated Depreciation	(964,087)
Net Book Value	$5,345,928

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:

Year	Principal	Interest	Total
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	134,932	519,635	654,567
2021 - 2025	805,541	2,471,943	3,277,484
2026 - 2030	1,096,994	2,187,659	3,284,653
2031 - 2035	1,509,884	1,780,793	3,290,677
2036 - 2040	2,095,487	1,205,428	3,300,915
2041 - 2044	2,258,754	393,734	2,652,488
Total	$8,261,860	$10,688,857	$18,950,717

XII. 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 XI). 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.

XIII. 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 2015, 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, 2015.

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 $620,424.

XIV. Defined Benefit Pension Plans

1. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the PC's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits obligation for this liability to annually required payments. PC cannot control benefit terms or the manner in which pensions are financed; however, PC does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

2. Plan Description - School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017*
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and PC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

PC's contractually required contribution to SERS was $65,998 for fiscal year 2015.

3. Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. PC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

PC's contractually required contribution to STRS was $496,284 for fiscal year 2015.

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PC's proportion of the net pension liability was based on PC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 7,935,843	$ 723,664	$ 8,659,507
Proportion of the Net Pension Liability	0.03262629%	0.01429900%	
Pension Expense	$ 304,134	$ 45,967	$ 350,101

At June 30, 2015, PC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 76,400	$ 6,159	$ 82,559
School contributions subsequent to the measurement date	496,284	65,998	562,282
Total Deferred Outflows of Resources	$ 572,684	$ 72,157	$ 644,841
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 1,468,161	$ 117,453	$ 1,585,614

$562,282 reported as deferred outflows of resources related to pension resulting from PC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2016	$ (347,940)	$ (27,824)	$ (375,764)
2017	(347,940)	(27,824)	(375,764)
2018	(347,940)	(27,824)	(375,764)
2019	(347,941)	(27,822)	(375,763)
	$ (1,391,761)	$ (111,294)	$ (1,503,055)

5. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$ 1,032,454	$ 723,664	$ 463,946

6. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents PC's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what PC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$ 11,361,024	$ 7,935,843	$ 5,039,292

XV. Post-Employment Benefits

1. School Employees Retirement System

Health Care Plan Description - PC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

PC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were $11,482, $7,957 and $7,273, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

2. State Teachers Retirement System

Plan Description – PC participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. PC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $33,050 and $32,552, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

XVI. 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, 2015.

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 2015 are immaterial and are not reflected in the 2015 financial statements but will be included in the financial activity for fiscal year 2016.

XVII. 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 2015 Foundation payments received by PC, from the State of Ohio. The total amount due from PC for fiscal year 2015 was $127,029 all of which was paid prior to June 30, 2015.

PC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2015. The agreement was for a period of one year, effective July 1, 2014. Management fees are calculated as 6.25% of the Fiscal Year 2015 Foundation Funds payment received by PC from the State of Ohio plus a fixed fee of $450,000. The total fee cannot exceed twice the fixed fee. The total amount due from PC for the fiscal year ending June 30, 2015 was $897,725 all of which was paid prior to June 30, 2015.

XVIII. 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.

XIX. Subsequent Events

During the summer of 2015 Constellation Schools embarked on an initiative to provide each student from grades two and up a laptop to be used for educational purposes. A total of 4,080 laptops were acquired through a lease with Winthrop Leasing in partnership with CF Bank. Each school will be charged a lease amount equal to the number of computers provided to their students during the fall of 2015.

PC entered into a facility lease agreement with Constellation Real Estate Holding, LLC during the summer of 2015 for a school building in Parma, Ohio. The lease terms are for 5 years with PC paying all operating costs and rent sufficient to cover the mortgage. PC has a purchase option to acquire the building for the debt balance plus improvements.

Constellation Schools: Parma Community
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Two Fiscal Years (1)

	2014	2013
State Teachers Retirement System (STRS)		
School's proportion of the net pension liability (asset)	0.03262629%	0.03262629%
School's proportionate share of the net pension liability (asset)	$7,935,843	$9,453,124
School's covered-employee payroll	$3,305,031	$3,255,223
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	240.11%	290.40%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
School Employees Retirement System (SERS)		
School's proportion of the net pension liability (asset)	0.01429900%	0.01429900%
School's proportionate share of the net pension liability (asset)	$723,664	$850,316
School's covered-employee payroll	$442,460	$281,655
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	163.55%	301.90%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

Constellation Schools: Parma Community
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years

	2015	2014	2013	2012
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$496,284	$429,654	$423,179	$415,489
Contributions in Relation to the Contractually Required Contribution	(496,284)	(429,654)	(423,179)	(415,489)
Contribution deficiency (excess)	$0	$0	$0	$0
School's covered-employee payroll	$3,544,886	$3,305,031	$3,255,223	$3,196,069
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)				
Contractually required contribution	$65,998	$61,325	$38,981	$33,471
Contributions in relation to the contractually required contribution	(65,998)	(61,325)	(38,981)	(33,471)
Contribution deficiency (excess)	$0	$0	$0	$0
School's covered-employee payroll	$500,743	$442,460	$281,655	$248,855
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

n/a - Information prior to 2008 is not available.

2011	2010	2009	2008	2007	2006
$368,921	$310,835	$252,810	$169,684	$117,277	$112,917
(368,921)	(310,835)	(252,810)	(169,684)	(117,277)	(112,917)
$0	$0	$0	$0	$0	$0
$2,837,854	$2,391,038	$1,944,692	$1,305,262	$902,131	$868,592
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$29,159	$28,461	$28,143	$18,873	n/a	n/a
(29,159)	(28,461)	(28,143)	(18,873)	n/a	n/a
$0	$0	$0	$0	n/a	n/a
$231,973	$210,199	$286,006	$192,189	n/a	n/a
12.57%	13.54%	9.84%	9.82%	n/a	n/a

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November 24, 2015

To the Board of Trustees
Constellation Schools: Parma Community
Cuyahoga County, Ohio
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, 2015, 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 24, 2015, in which we noted the School restated their June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*."

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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 from 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Cambridge, Ohio

Rea & associates a brighter way

November 24, 2015

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

Independent Auditor's Report on Compliance for Each Major Federal Program and Report 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's, Cuyahoga County, Ohio (the "School") compliance with the types of compliance requirements described in the *OMB 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, 2015. 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.

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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, 2015.

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.

Cambridge, Ohio

CONSTELLATION SCHOOLS: PARMA COMMUNITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Cash Receipts	Cash Disbursements
U. S. Department of Education				
Passed Through Ohio Department of Education:				
Title I	84.010	2014	$ 8,634	$ 0
Title I	84.010	2015	348,250	347,434
Total Title I			356,884	347,434
IDEA Part B	84.027	2014	128	0
IDEA Part B	84.027	2015	189,482	188,312
Total IDEA Part B			189,610	188,312
Title III LEP	84.365	2015	0	323
Improving Teacher Quality	84.367	2014	28	0
ARRA - Race to the Top	84.395	2014	54,274	0
ARRA - Race to the Top	84.395	2015	9,577	64,073
Total ARRA Race to the Top			63,851	64,073
Total U.S. Department of Education			610,373	600,142
U. S. Department of Agriculture				
Passed Through the Ohio Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program (B)	10.553	2015	33,147	33,147
National School Lunch Program (B)	10.555	2015	121,897	121,897
Total Child Nutrition Cluster			155,044	155,044
Total U.S. Department of Agriculture			155,044	155,044
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 765,417	$ 755,186

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

Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2015

(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, 2015

1. SUMMARY OF AUDITOR'S RESULTS

(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.

PURITAS 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
FEBRUARY 4, 2016