CONSTELLATION SCHOOLS: EASTSIDE ARTS ACADEMY
CUYAHOGA COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Constellation Schools

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

Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Eastside Arts Academy
6700 Lansing Avenue
Cleveland, Ohio 44105

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Eastside Arts Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. 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: Eastside Arts Academy is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

February 9, 2018

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CONSTELLATION SCHOOLS: EASTSIDE ARTS ACADEMY
CUYAHOGA COUNTY, OHIO

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December 12, 2017

To the Board of Trustees
Constellation Schools: Eastside Arts Academy
Cuyahoga County, Ohio
6700 Lansing Avenue
Cleveland, OH 44105

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Constellation Schools: Eastside Arts Academy, Cuyahoga County, Ohio, (the "School") as of and for the year ended June 30, 2017, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note II.4, the School restated the net position balance to account for the reallocation of certain management company employees reported under one employer code within the state retirement systems, and their effect on the net pension liability, deferred outflows of resources and deferred inflows of resources. 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 Contributions* on pages 5–10, 39-40, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 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: Eastside Arts Academy (EAA) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the financial performance of EAA 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 EAA.

Financial Highlights

Key financial highlights for 2017 include the following:

- The school, in its' sixth year of operations, had enrollment totaling 119 students in 2017 serving grades kindergarten through six.

- Net position decreased $192,086 which represents a 15.6% decrease from 2016. The school received an increase in services provided to other schools with a decrease in state basic aid funding and federal entitlement grant funding.

- Total assets and deferred outflows of resources increased $355,983 which represents a 61.7% increase from 2016. This includes increases in cash, prepaid expenses and deferred outflow of resources with decreases in federal grants receivable, net capital assets.

- Liabilities and deferred inflows of resources increased $548,069 which represents a 30.3% increase from 2016. Increases occurred in payroll payables, due to other governments, unearned revenues and net pension liability with decreases in vendor payables, loans payable and deferred inflow of resources.

- Operating revenues increased $55,873 which represents a 4.7% increase from 2016. Most of the increase is due to increased revenues from services provided to other schools with decreases in state basic aid and Casino tax distributions due to an enrollment decrease.

- Total expenses decreased $29,868 which represents a decrease of 1.7% from 2016. Increases occurred in salaries, benefits, materials and supplies and other expenses. Decreases occurred in purchased services, capital outlay, depreciation and change in net pension liability.

- Non-operating revenues decreased $1,858 which represents an 0.8% decrease from 2016. A decrease in state and federal grants was partially offset by an increase in private grants and contributions.

Using this Financial Report

This report consists of three parts, the Financial Statements, Notes to the Financial Statements and Required Supplemental Information. 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 EAA has performed financially through June 30, 2017. This statement includes all of the assets, deferred outflows 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 year ended June 30, 2017 and 2016 for EAA.

	2017	Restated 2016	Change	%
Assets				
Cash	$243,575	$213,320	$30,255	14.2%
Other Current Assets	35,542	68,280	(32,738)	-47.9%
Non-Current Assets	225	225	0	0.0%
Capital Assets, Net	61,465	82,512	(21,047)	-25.5%
Deferred Outflow of Resources	592,566	213,053	379,513	178.1%
Total Assets and Deferred Outflow of Resources	933,373	577,390	355,983	61.7%
Liabilities				
Current Liabilities	95,642	33,304	62,338	187.2%
Long-Term Liabilities	2,257,741	1,667,417	590,324	35.4%
Deferred Inflow of Resources	1,535	106,128	(104,593)	-98.6%
Total Liabilities and Deferred Inflow of Resources	2,354,918	1,806,849	548,069	30.3%
Net Position				
Net Investment in Capital Assets	9,653	14,615	(4,962)	-34.0%
Unrestricted	(1,431,198)	(1,244,074)	(187,124)	-15.0%
Total Net Position	($1,421,545)	($1,229,459)	($192,086)	-15.6%

Net Position decreased $192,086, due primarily to an enrollment decrease during 2017, higher expenditures for staffing, student services and administrative services and effects of the change in pension liability. Cash increased $30,255; due from other governments decreased $42,887; prepaid expenses increased $10,149; net capital assets decreased $21,047 and deferred outflow of resources increased $379,513 from 2016. Accounts payable decreased $6,000; payroll payable increased $45,138; interest payable decreased $49; unearned revenue increased $285, due to other governments increased $20,840; loans payable decreased $10,402, leases payable decreased $5,683, pension liability increased $608,533 and deferred inflow of resources decreased $104,593 from 2016.

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, 2017.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for EAA for fiscal year ended June 30, 2017 and 2016.

	2017	Restated 2016	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$1,128,373	$1,162,754	($34,381)	-3.0%
Casino Tax Distributions	6,373	6,408	(35)	-0.5%
Other Operating Revenues	110,410	20,121	90,289	448.7%
Total Operating Revenues	1,245,156	1,189,283	55,873	4.7%
Private Grants and Contributions	350	0	350	100.0%
Federal and State Grants	242,872	245,080	(2,208)	-0.9%
Total Non-Operating Revenues	243,222	245,080	(1,858)	-0.8%
Total Revenues	1,488,378	1,434,363	54,015	3.8%
Expenses				
Salaries	692,488	514,997	177,491	34.5%
Fringe Benefits	241,427	176,663	64,764	36.7%
Change in Net Pension Liability	124,429	370,496	(246,067)	-66.4%
Purchased Services	504,442	529,358	(24,916)	-4.7%
Materials and Supplies	53,401	48,967	4,434	9.1%
Capital Outlay	9,448	11,648	(2,200)	-18.9%
Depreciation	30,387	36,371	(5,984)	-16.5%
Other Expenses	24,442	21,832	2,610	12.0%
Total Expenses	1,680,464	1,710,332	(29,868)	-1.7%
Changes in Net Position	($192,086)	($275,969)	$83,883	-30.4%

Net Position decreased in fiscal years 2017 and 2016 due to enrollment decreases and federal entitlement grant collections with increases in expenditures for educational services. 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.

Total revenue increased $54,015 from 2016 to 2017. The most significant change in revenues are increases in services provided to other schools with decreases of $34,381 in State Foundation funding due to enrollment decreases, and decreased state and federal grant funding for title programs totaling $2,208.

Expenses decreased $29,868 from 2016 to 2017 due to a combination of salary increases and decreases in changes net pension liability and purchased services. Salaries and Fringe Benefits increased $242,255 due to increased staff and regular annual salary rate increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68. Purchased services decreased $24,916 due to decreases in instruction services, student services, technology support services, facility costs and food services. Materials and Supplies increased $4,434 due to increased purchases of online instructional programs and instructional workbooks with reduced purchases of instructional materials and text books. Capital Outlay decreased $2,200 due to reduced purchases of furniture and equipment partially offset by increased purchases of classroom technology (which was not capitalized), Depreciation decreased $5,984 due to capital assets becoming fully depreciated during the year. Other Expenses increased $2,610 due to increased insurance and miscellaneous expenses.

Capital Assets

As of June 30, 2017, EAA had $61,465 invested in leasehold improvements, technology and software, furniture and equipment, net of depreciation. This is a $21,047 decrease from June 30, 2016.

The following schedule provides a summary of Capital Assets as of June 30, 2017 and 2016 for EAA:

	2017	2016	Change	%
Capital Assets (net of depreciation)				
Leasehold Improvements	$2,355	$0	$2,355	100.0%
Technology and Software	53,160	76,476	(23,316)	-30.5%
Furniture and Equipment	5,950	6,036	(86)	-1.4%
Net Capital Assets	$61,465	$82,512	($21,047)	-25.5%

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

Equipment Financing

During fiscal year 2014, EAA entered into another three-year lease for technology equipment which expired during the current year. During fiscal year 2016, EAA entered into another four-year lease for technology equipment. During fiscal year 2017, EAA entered into another four-year lease for technology equipment. Equipment purchased through these leases totaling $58,937 has been capitalized. The outstanding principal value as of June 30, 2017 on the lease payable is $34,459.

During fiscal year 2015, EAA secured a four-year loan with CF Bank to purchase $41,791 of technology equipment. The equipment has been recorded as capital equipment to recognize the assets, and as loans payable to recognize the debt. The outstanding principal value as of June 30, 2017 on the loan payable is $17,353.

For more information on equipment financing see the Notes to the Financial Statements.

Net Pension Liabilities

Under the standards required by GASB 68, the net pension liability equals EAA'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, EAA 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, EAA'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, EAA is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. 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 2017 statements report pension expense of $233,539.

Current Financial Issues

Constellation Schools: Eastside Arts Academy opened in August 2011. The school has grown from a total of 45 students, 5 teaching staff members and expenses of $486,009 to a total of 119 students, 15 teaching staff members and expenses of $1,680,464. The school currently serves grades kindergarten through six.

The Board of Directors, school management and school staff continue to work diligently to ensure that EAA 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 EAA 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: Eastside Arts Academy
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2017

Assets:	
Current Assets:	
Cash	$243,575
Prepaid Expenses	13,908
Due from Other Governments	21,634
Total Current Assets	279,117
Non-Current Assets:	
Security Deposit	225
Capital Assets (Net of Accumulated Depreciation)	61,465
Total Non-Current Assets	61,690
Total Assets	340,807
Deferred Outflow of Resources:	
Pension (STRS & SERS)	592,566
Total Deferred Outflow of Resources	592,566
Total Assets and Deferred Outflow of Resources	933,373
Liabilities:	
Current Liabilities:	
Accounts Payable	3,749
Payroll Payable	45,138
Interest Payable	210
Unearned Revenue	400
Due to Other Governments	21,761
Loan Payable	10,830
Capital Lease Equipment Payable	13,554
Total Current Liabilities	95,642
Long Term Liabilities:	
Loan Payable	6,523
Capital Lease Equipment Payable	20,905
Net Pension Liability	2,230,313
Total Long Term Liabilities	2,257,741
Total Liabilities	2,353,383
Deferred Inflow of Resources:	
Pension (STRS & SERS)	1,535
Total Deferred Inflow of Resources	1,535
Total Liabilities and Deferred Inflow of Resources	2,354,918
Net Position:	
Net Investment in Capital Assets	9,653
Unrestricted	(1,431,198)
Total Net Position	($1,421,545)

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

Constellation Schools: Eastside Arts Academy
Cuyahoga County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$1,128,373
Casino Tax Distributions	6,373
Other Operating Revenues	110,410
Total Operating Revenues	1,245,156
Operating Expenses:	
Salaries	692,488
Fringe Benefits	241,427
Change in Net Pension Liability	124,429
Purchased Services	504,442
Materials and Supplies	53,401
Capital Outlay	9,448
Depreciation	30,387
Other Operating Expenses	21,304
Total Operating Expenses	1,677,326
Operating Loss	(432,170)
Non-Operating Revenues & (Expenses):	
Interest Expense	(3,138)
Private Grants and Contributions	350
Federal and State Grants	242,872
Total Non-Operating Revenues & (Expenses)	240,084
Change in Net Position	(192,086)
Net Position at Beginning of the Year – Restated (See Note II.4)	(1,229,459)
Net Position at End of Year	($1,421,545)

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

Constellation Schools: Eastside Arts Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,134,746
Cash Payments to Suppliers for Goods and Services	(821,925)
Cash Payments to Employees for Services	(647,350)
Other Operating Revenues	110,695
Net Cash Used for Operating Activities	(223,834)
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions	350
Federal and State Grants Received	282,350
Net Cash Provided by Noncapital Financing Activities	282,700
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(2,894)
Loan Principal Payments	(10,402)
Loan Interest Payments	(930)
Equipment Lease Principal Payments	(12,129)
Equipment Lease Interest Payments	(2,256)
Net Cash Used for Capital and Related Financing Activities	(28,611)
Net Increase in Cash	30,255
Cash at Beginning of Year	213,320
Cash at End of Year	$243,575

Non Capital Transaction: At June 30, 2017 the school purchased $6,446 in capital assets on account.

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

Constellation Schools: Eastside Arts Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($432,170)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	30,387
Changes in Assets, Liabilities, Deferred Inflows of Resources and Deferred Outflows of Resources:	
(Increase) in Prepaid Expenses	(10,149)
Decrease in Due from Other Governments	3,408
(Increase) in Deferred Outflows - Pensions	(379,513)
(Decrease) in Accounts Payable	(6,000)
Increase in Payroll Payable	45,138
(Decrease) in Unearned Revenue	285
Increase in Due to Other Governments	20,840
Increase in Net Pension Liability	608,533
(Decrease) in Deferred Inflows - Pensions	(104,593)
Total Adjustments	208,336
Net Cash Used for Operating Activities	($223,834)

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

I. Description of the School and Reporting Entity

Constellation Schools: Eastside Arts Academy (EAA), is a nonprofit corporation established on May 2, 2011 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 October, 16, 2012, EAA was issued a determination letter of 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 EAA. EAA, which is part of Ohio's education program, is independent of any school district. EAA may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of EAA.

EAA was approved for operation under a contract dated May 15, 2011 between the Governing Authority of EAA and St. Aloysius Orphanage (SAO) (the Sponsor). The contract with SAO had an expiration date of June 30, 2016. Effective July 1, 2015 EAA contracted with Buckeye Community Hope Foundation (BCHF) as the sponsor for a five-year period which expires June 30, 2020. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services.

EAA entered into an agreement with Constellation Schools (CS) to provide legal, financial, and business management services for the fiscal year. The agreement may be renewed annually. See Note XIII for further discussion of this management agreement.

EAA 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 EAA instructional facility staffed by 15 certificated full time teaching personnel and 4 support staff that provided services to 119 students. During 2017, the board members for EAA also serve as the board for Constellation Schools: Lorain Community Middle; Constellation Schools: Old Brooklyn Community Middle; Constellation Schools: Westpark Community Middle; and Constellation Schools: Outreach Academy for Students with Disabilities.

II. Summary of Significant Accounting Policies

The financial statements of EAA 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 EAA'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 position.

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

3. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, EAA has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of EAA.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of EAA.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of EAA.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in EAA's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

4. Restatement of Net Position

Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the net pension liability, deferred outflows of resources, deferred inflows of resources and the related pension expense should be allocated to each of the schools. This allocation had the following effect on beginning net position:

Previously Reported Net Position	$	(846,828)
Adjustments:		
Deferred Outflows - Pension		52,984
Net Pension Liability		(406,779)
Deferred Inflows - Pension		(28,836)
Restated Net Position, July 1, 2016	$	(1,229,459)

5. Cash

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

6. Budgetary Process

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

7. Due From Other Governments and Accounts Receivable

Monies due EAA for the year ended June 30, 2017 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

8. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition 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. Depreciation of leasehold improvements, technology and software, furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets or less. Estimated useful lives are as follows:

Capital Asset Classification	Years
Leasehold Improvements	Up to 5
Technology and Software	3 to 5
Furniture and Equipment	10

9. Intergovernmental Revenues

EAA 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. EAA 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 2017 school year totaled $1,377,618.

10. Private Grants and Contributions

EAA receives grants and contributions from private sources to support the school's programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. EAA received a total of $350 in grants and contributions for the 2017 school year.

11. Compensated Absences

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

12. 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.

13. 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.

14. Unearned Revenue

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

15. Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of assets by EAA that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflow of resources related to pension is described in Note X.

A deferred inflow of resources is an acquisition of assets by EAA that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The deferred inflow of resources related to pension is described in Note X.

III. Deposits

At fiscal year end June 30, 2017, the carrying amount of EAA's deposits totaled $243,575 and its bank balance was $258,594. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2017, $8,594 of the bank balance was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, EAA will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of EAA.

IV. Capital Assets

A summary of capital assets at June 30, 2017 follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Capital Assets Being Depreciated:				
Leasehold Improvements	$42,867	$2,895	$0	$45,762
Technology and Software	108,465	6,445	0	114,910
Furniture and Equipment	11,573	0	0	11,573
Total Capital Assets Being Depreciated	162,905	9,340	0	172,245
Less Accumulated Depreciation:				
Leasehold Improvements	(42,867)	(540)	0	(43,407)
Technology and Software	(33,273)	(28,477)	0	(61,750)
Furniture and Equipment	(4,253)	(1,370)	0	(5,623)
Total Accumulated Depreciation	(80,393)	(30,387)	0	(110,780)
Total Capital Assets, Net of Accumulated Depreciation	$82,512	($21,047)	$0	$61,465

V. Purchased Services

Purchased Services include the following:

Instruction	$40,980
Pupil Support Services	87,817
Staff Development & Support	91,955
Administrative	104,924
Occupancy Costs	127,276
Food Services	51,143
Student Activities	347
Total Purchased Services	$504,442

VI. Operating Lease

EAA leases its facilities at 6804 Lansing Avenue, Cleveland, Ohio from The Roman Catholic Diocese of Cleveland, Immaculate Heart of Mary Parish under a five-year lease agreement commencing August 1, 2011 and ending June 30, 2016. The lease has been renewed for a five-year period through June 30, 2021. Rent increases of 3% occur on July 1 of each year. During fiscal year 2017 annual rent was $67,531 of all of which was paid prior to June 30, 2017. Future minimum lease payments are as follows:

Year	Lease Payments
2018	$69,556
2019	71,643
2020	73,793
2021	76,006
Total	$290,998

VII. Loan Payable

During fiscal year 2015, EAA secured a four-year loan with CF Bank to purchase $41,791 of technology equipment (accumulated depreciation as of June 30, 2017 is $25,684). 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 January 15, 2019. Equipment purchased with loan proceeds has been capitalized. Principal payments during fiscal year 2017 totaled $10,402 and interest paid totaled $930.

Future minimum loan payments for principal and interest under the capital lease are as follows

Year	Principal	Interest	Total
2018	$10,830	$503	$11,333
2019	6,523	88	6,611
Total	$17,353	$591	$17,944

VIII. Capital Equipment Lease Payable

During fiscal year 2014, EAA entered into a three-year lease for technology equipment with Winthrop Leasing. The principal amount of lease is $4,875 with an interest rate of 0.5% per annum. This lease meets the criteria of a capital lease as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

During fiscal year 2016, EAA entered into a four-year lease for technology equipment with Winthrop Leasing. The principal amount of lease is $47,616 with an interest rate of 6.46% per annum. This lease meets the criteria of a capital lease as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

During fiscal year 2017, EAA entered into a four-year lease for technology equipment with Winthrop Leasing. The principal amount of lease is $6,446 with an interest rate of 5.51% per annum. This lease meets the criteria of a capital lease as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

Assets of technology equipment totaling $4,875, $47,616 and $6,446, under each agreement respectively, have been capitalized (accumulated depreciation as of June 30, 2017 is $4,570, $21,824 and $268 respectively). 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 2017 totaled $12,129 and interest paid totaled $2,256.

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

Year	Principal	Interest	Total
2018	$13,554	$1,777	$15,331
2019	14,441	890	15,331
2020	5,010	166	5,176
2021	1,454	38	1,492
Total	$34,459	$2,871	$37,330

IX. Risk Management

1. Property and Liability Insurance

EAA 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 2017, EAA 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, Cyber Liability 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

EAA makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by EAA employees with the Ohio Worker's Compensation System between January 1, 2012 and June 30, 2017. The total payment made for this claim has been $1,274. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of EAA as June 30, 2017.

3. Employee Medical, Dental, Vision and Life Benefits

EAA 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 EAA for the fiscal year is $117,316.

X. 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 EAA'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 EAA's obligation for this liability to annually required payments. EAA cannot control benefit terms or the manner in which pensions are financed; however, EAA 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 due to other governments on the accrual basis of accounting.

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

Plan Description – EAA 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 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 30 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 EAA 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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

EAA's contractually required contribution to SERS was $30,470 for fiscal year 2017.

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

Plan Description – EAA 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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. EAA was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

EAA's contractually required contribution to STRS was $78,640 for fiscal year 2017.

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. EAA's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 1,775,566	$ 454,747	$ 2,230,313
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00530447%	0.00621318%	
Prior Measurement Date	0.00469668%	0.00567380%	
Change in Proportionate Share	0.00060779%	0.00053938%	
Pension Expense	$ 163,768	$ 69,771	$ 233,539

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in EAA's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, EAA 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	$ 71,742	$ 6,133	$ 77,875
Net Difference between Projected and Actual Earnings on Pension Plan Investments	147,418	37,511	184,929
Changes of Assumptions	0	30,357	30,357
Changes in Proportion and Differences between EAA Contributions and Proportionate Share of Contributions	137,354	52,941	190,295
EAA Contributions Subsequent to the Measurement Date	78,640	30,470	109,110
Total Deferred Outflows of Resources	$ 435,154	$ 157,412	$ 592,566
Deferred Inflows of Resources			
Changes in Proportion and Differences between EAA Contributions and Proportionate Share of Contributions	$ 1,535	$ 0	$ 1,535

$109,110 reported as deferred outflows of resources related to pension resulting from EAA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. 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:			
2018	$ 68,528	$ 41,097	$ 109,625
2019	68,528	41,070	109,598
2020	125,095	33,994	159,089
2021	92,828	10,781	103,609
	$ 354,979	$ 126,942	$ 481,921

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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average 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 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 earnings were calculated using the long-term assumed investment rate of return (7.50 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 EAA'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 EAA's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
EAA's's Proportionate Share of the Net Pension Liability	$ 602,057	$ 454,747	$ 331,443

6. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 commences on the fifth anniversary of the 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 no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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 %	7.61 %

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

Sensitivity of EAA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents EAA's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what EAA'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%)
EAA's's Proportionate Share of the Net Pension Liability	$ 2,359,583	$ 1,775,566	$ 1,282,913

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to EAA's net pension liability is expected to be significant.

XI. Post-Employment Benefits

1. School Employees Retirement System

Health Care Plan Description - EAA 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 2017, SERS did not allocate any employer contributions to the Health Care fund. 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 2017, this amount was $23,500. 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. For fiscal year 2017, EAA's surcharge obligation was $1,247.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. EAA's contributions for health care for the fiscal year ended June 30, 2015, was $1,087. The full amount has been contributed for fiscal year 2015.

2. State Teachers Retirement System

Plan Description – EAA 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 years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, EAA did not contribute to health care in the last three fiscal years.

XII. Contingencies

1. Grants

EAA 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 EAA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of EAA at June 30, 2017.

2. School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017 without any adjustment in funding for EAA.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of EAA.

In addition, EAA's contracts with their Sponsor, Buckeye Community Hope Foundation and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by EAA from the State (See Note XIII). As discussed above, FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to fee calculation changes necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, EAA.

XIII. Sponsorship and Management Agreements

EAA entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective until June 30, 2020. Sponsorship fees are calculated as 3% of the Fiscal Year 2017 Foundation payments received by EAA, from the State of Ohio. The total amount due BCHF from EAA for fiscal year 2017 was $33,136 of which was paid as of June 30, 2017.

EAA entered into an agreement with Constellation Schools LLC to provide legal, financial, and business management services for fiscal year 2017. The agreement was for a period of one year, effective July 1, 2016. Management fees are calculated as 6.25% of the Fiscal Year 2017 Foundation payments received by EAA from the State of Ohio plus a fixed fee of $60,000. The total amount due from EAA for the fiscal year ending June 30, 2017 was $120,000. During the 2017 fiscal year CS issued credits totaling $73,557 to EAA to reduce total management fees. After application of the credits, the total amount due from EAA for the fiscal year ending June 30, 2017 was $46,443 all of which was paid prior to June 30, 2017.

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Constellation Schools: Eastside Arts Academy
Cuyahoga County
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years (1)

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
EAA's Proportion of the Net Pension Liability	0.00530447%	0.00469668%	0.00470563%	0.00470563%
EAA's Proportionate Share of the Net Pension Liability	$1,775,566	$1,298,025	$1,144,572	$1,363,407
EAA's Covered Payroll (2)	$553,100	$397,071	$388,538	$394,885
EAA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	321.02%	326.90%	294.58%	345.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
EAA's Proportion of the Net Pension Liability	0.00621318%	0.00567380%	0.00465789%	0.00465789%
EAA's Proportionate Share of the Net Pension Liability	$454,747	$323,753	$235,733	$276,990
EAA's Covered Payroll (2)	$187,686	$70,486	$53,687	$43,620
EAA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	242.29%	459.32%	439.09%	635.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 and 2017 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

· Discount rate from 7.75% to 7.50%
· Assumed rate of inflation from 3.25% to 3.00%
· Payroll growth assumption from 4.00% to 3.50%
· Assumed real wage growth from 0.75% to 0.50%

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Constellation Schools: Eastside Arts Academy

Cuyahoga County

Required Supplementary Information

Schedule of the School Contributions

Last Six Fiscal Years (1)

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$78,640	$77,434	$55,590	$50,510
Contributions in Relation to the Contractually Required Contribution	(78,640)	(77,434)	(55,590)	(50,510)
Contribution Deficiency (Excess)	$0	$0	$0	$0
EAA's Covered Payroll	$561,714	$553,100	$397,071	$388,538
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
School Employees Retirement System (SERS)				
Contractually Required Contribution	$30,470	$26,276	$9,290	$7,441
Contributions in Relation to the Contractually Required Contribution	(30,470)	(26,276)	(9,290)	(7,441)
Contribution Deficiency (Excess)	$0	$0	$0	$0
EAA's Covered Payroll	$217,643	$187,686	$70,486	$53,687
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

(1) Information prior to fiscal year 2012 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the contributions related to these employees should be allocated to each of the schools. Fiscal year 2017 and 2016 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

2013	2012
$51,335	$22,562
(51,335)	(22,562)
$0	$0
$394,885	$173,554
13.00%	13.00%
$6,037	$4,217
(6,037)	(4,217)
$0	$0
$43,620	$31,353
13.84%	13.45%

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December 12, 2017

To the Board of Trustees
Constellation Schools: Eastside Arts Academy
Cuyahoga County, Ohio
6700 Lansing Avenue
Cleveland, OH 44105

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: Eastside Arts Academy, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 12, 2017, wherein we noted the School restated net position balance to account for the reallocation of certain management company employees reported under one employer code within the state retirement systems, and their effect on the net pension liability, deferred outflows of resources and deferred inflows of resources.

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

EASTSIDE ARTS ACADEMY

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 22, 2018

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