

**CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY  
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: Madison Community Elementary  
2015 West 95th Street  
Cleveland, OH 44102

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Madison Community Elementary, 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: Madison Community Elementary is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

December 22, 2017



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

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November 22, 2017

To the Board of Trustees  
Constellation Schools: Madison Community Elementary  
Cuyahoga County, Ohio  
2015 West 95<sup>th</sup> Street  
Cleveland, OH 44102

### **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the Constellation Schools: Madison Community Elementary, 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, and 40-41, 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.

Constellation Schools: Madison Community Elementary  
Independent Auditor's Report  
Page 3 of 3

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 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.

*Kear & Associates, Inc.*

Cambridge, Ohio

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# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2017

The discussion and analysis of Constellation Schools: Madison Community Elementary (MDCE) 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 MDCE 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 MDCE.

## **Financial Highlights**

Key financial highlights for 2017 include the following:

- During 2017 MDCE expended the remaining \$30,727 for building improvements utilizing proceeds from the bond refinance which occurred in April 2014.
- In total, net position decreased \$141,918, which represents a 5.8% decrease from 2016. Increased State Foundation funding, Federal funding and revenue from services provided to other schools were offset by increased operating expenses.
- Total assets and deferred outflow of resources increased \$696,492, which represents a 15.7% increase from 2016. This is due to increases in cash, bond reserve accounts and deferred outflows of resources offset by reductions in in bond escrow accounts and net capital assets.
- Liabilities and deferred inflow of resources increased \$838,410, which represents a 12.1% increase, from 2016. Increases in vendor payables, payroll payable, due to other governments, equipment leases payable and net pension liability were offset by decreases in, bond interest payable, bonds payable, unearned revenues and deferred inflow of resources and during the year.
- Operating revenues increased by \$145,118, which represents a 5.3% increase from 2016. This increase is a result of increased State Foundation and services provided to other schools with decreases in other minor activities.
- Expenses increased by \$158,643 which represents a 4.6% increase from 2016. Operating expense increases due to a staff addition and routine annual increases were offset by decreases in certain operating expenses.
- Non-operating revenues increased by \$134,995, which represents a 27.8% increase from 2016. This increase is due to increases in federal grant programs, private grants and contributions and interest income.

## **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.

# CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2017

## **Statement of Net Position**

The Statement of Net Position looks at how well MDCE has performed financially through June 30, 2017. This statement includes all of the assets, deferred outflow of resources, liabilities, deferred inflow 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, 2017 and 2016 for MDCE.

	<b>Restated</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>%</b>
<b>Assets</b>				
Cash	\$1,111,257	\$901,661	\$209,596	23.2%
Other Current Assets	277,156	346,876	(69,720)	-20.1%
Non-Current Assets	324,574	312,307	12,267	3.9%
Capital Assets, Net	2,136,282	2,145,962	(9,680)	-0.5%
Deferred Outflow of Resources	<u>1,290,351</u>	<u>736,322</u>	<u>554,029</u>	<u>75.2%</u>
Total Assets and Deferred Outflow of Resources	<u>5,139,620</u>	<u>4,443,128</u>	<u>696,492</u>	<u>15.7%</u>
<b>Liabilities</b>				
Current Liabilities	269,336	155,218	114,118	73.5%
Long-Term Liabilities	7,451,337	6,493,193	958,144	14.8%
Deferred Inflow of Resources	<u>25,318</u>	<u>259,170</u>	<u>(233,852)</u>	<u>-90.2%</u>
Total Liabilities and Deferred Inflow of Resources	<u>7,745,991</u>	<u>6,907,581</u>	<u>838,410</u>	<u>12.1%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	(388,002)	(361,598)	(26,404)	7.3%
Net Restricted for Debt Purposes	180,427	165,641	14,786	8.9%
Unrestricted	<u>(2,398,796)</u>	<u>(2,268,496)</u>	<u>(130,300)</u>	<u>5.7%</u>
Total Net Position	<u>(\$2,606,371)</u>	<u>(\$2,464,453)</u>	<u>(\$141,918)</u>	<u>-5.8%</u>

Net Position decreased \$141,918 in fiscal year 2017. Cash increased \$209,596; bond escrow accounts decreased \$30,817; accounts receivable increased \$116; prepaid expenses increased \$32,180; due from other governments decreased \$71,213; bond reserve accounts increased \$12,267; deferred outflow of resources increased \$554,043 and net capital assets decreased \$9,680 from 2016. For liabilities, accounts payable increased \$5,431; payroll payable increased \$97,313; interest payable decreased \$841; due to other governments increased \$10,693; unearned revenue decreased \$536; equipment leases payable increased \$2,213; bonds

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2017

payable decreased \$32,592; net pension liability increased \$990,594 and deferred inflow of resources decreased \$233,851 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 MDCE for fiscal years ended June 30, 2017 and 2016.

	<b>Restated</b>			
	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>%</b>
<b>Revenues</b>				
Foundation and Poverty Based Assistance Revenues	\$2,720,621	\$2,693,521	\$27,100	1.0%
Casino Tax Distribution	15,158	16,422	(1,264)	-7.7%
Other Operating Revenues	139,632	20,350	119,282	586.2%
Total Operating Revenues	<u>2,875,411</u>	<u>2,730,293</u>	<u>145,118</u>	<u>5.3%</u>
Interest Income	328	90	238	264.4%
Private Grants and Contributions	10,857	0	10,857	100.0%
Federal and State Grants	609,809	485,909	123,900	25.5%
Total Non-Operating Revenues	<u>620,994</u>	<u>485,999</u>	<u>134,995</u>	<u>27.8%</u>
Total Revenues	<u>3,496,405</u>	<u>3,216,292</u>	<u>280,113</u>	<u>8.7%</u>
<b>Expenses</b>				
Salaries	1,490,051	1,242,374	247,677	19.9%
Fringe Benefits	480,392	403,086	77,306	19.2%
Change in Net Pension Liability	188,947	350,943	(161,996)	-46.2%
Purchased Services	988,809	1,001,785	(12,976)	-1.3%
Materials and Supplies	120,433	101,885	18,548	18.2%
Capital Outlay	10,491	2,938	7,553	257.1%
Depreciation	97,007	109,811	(12,804)	-11.7%
Other Expenses	262,193	266,858	(4,665)	-1.7%
Total Expenses	<u>3,638,323</u>	<u>3,479,680</u>	<u>158,643</u>	<u>4.6%</u>
Changes in Net Position	<u>(141,918)</u>	<u>(263,388)</u>	<u>121,470</u>	<u>46.1%</u>

## **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

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

**For the Year Ended June 30, 2017**

Net Position decreased in both fiscal years ended June 30, 2017 and 2016. This is due to increased state revenues, changes in federal grant programs, and improved operating efficiencies that were totally offset by changes in pension liability. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease other costs remain fixed such as facilities costs resulting in more efficient operations.

Overall, revenues increased by \$280,113 from 2016 to 2017. The most significant changes in revenues are increases of \$27,100 in State Foundation and Poverty Based Assistance funds, Federal Funds totaling \$123,900, Private Grants and Contributions totaling \$10,857, Field Trip collections of \$10,398 and \$90,950 in services revenues from other schools. Other revenues increased mostly due to miscellaneous other items.

Total expenses increased \$158,643 from 2016 to 2017. Salaries and Fringe Benefits increased \$324,983 due to increased staffing which was shared and billed to other schools and regular annual increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68. Purchased services decreased \$12,976 due to reductions in the use of contracted substitute teachers, direct student services, and administrative services with increases in staff professional development, equipment leases and occupancy costs. Materials and Supplies increased \$18,548 due to increased purchases of online instruction. Capital Outlay increased \$7,553 due to purchases of technology and equipment for classrooms which were not capitalized. Depreciation decreased \$12,804 due to assets becoming fully depreciated during the year. Other Expenses decreased \$4,665 due to reductions in interest expense, audit fee and other miscellaneous expenses during 2017.

### **Capital Assets**

As of June 30, 2017, MDCE had \$2,136,282 invested in land, building, building improvements, technology and software, furniture and equipment, net of depreciation. This is a \$9,680 decrease from June 30, 2016. The following schedule provides a summary of Capital Assets as of June 30, 2017 and 2016 for MDCE.

	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>%</b>
<b>Capital Assets (net of depreciation)</b>				
Land	\$80,000	\$80,000	\$0	0.0%
Building	549,000	567,000	(18,000)	-3.2%
Building Improvements	1,449,871	1,418,079	31,792	2.2%
Technology and Software	26,990	44,886	(17,896)	-39.9%
Furniture and Equipment	30,421	35,997	(5,576)	-15.5%
Net Capital Assets	<u>\$2,136,282</u>	<u>\$2,145,962</u>	<u>(\$9,680)</u>	<u>-0.5%</u>

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

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2017

## **Bond Debt Service**

On April 10, 2014 MDCE 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 MDCE to acquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at MDCE. MDCE 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, 2017 is \$3,055,846. For more information on debt service see the Notes to the Financial Statements.

## **Equipment Financing**

During the 2017 fiscal year, the school entered into a lease agreement with Winthrop to acquire \$2,310 of technology equipment. This lease is for a term of 48 months and expires in April 2021 at which time the equipment will have minimal value. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. 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 MDCE'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, MDCE 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*

## **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2017

*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, MDCE'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, MDCE 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 \$403,611.

### **Current Financial Issues**

Constellation Schools: Madison Community Elementary opened in the fall of 2004. The school has grown from 35 students, three teaching staff members and expenses of \$387,165 to a total of 304 students, 36 teaching staff members and expenses of \$3,638,323. MDCE exercised its' purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima. Title to the property was transferred to MDCE during 2014 as part of the bond refinancing with the CCCPA.

The Board of Directors, school management and school staff continue to work diligently to ensure that MDCE 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 MDCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, M.A., CPA by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 216.712.7600; or by faxing 216.712.7601.

**Constellation Schools: Madison Community Elementary**  
**Cuyahoga County, Ohio**  
**Statement of Net Position**  
**As of June 30, 2017**

**Assets:**

**Current Assets:**

Cash	\$1,111,257
Escrow Accounts	129,846
Accounts Receivable	10,130
Prepaid Expenses	48,049
Due from Other Governments	89,131
<i>Total Current Assets</i>	<u>1,388,413</u>

**Non-Current Assets:**

Security Deposit	29,339
Bond Reserve Accounts	295,235
Non-Depreciable Capital Assets	80,000
Capital Assets (Net of Accumulated Depreciation)	2,056,282
<i>Total Non-Current Assets</i>	<u>2,460,856</u>
<i>Total Assets</i>	<u>3,849,269</u>

**Deferred Outflow of Resources:**

Unamortized Deferred Charges on Bond Refinancing	289,121
Pension (STRS & SERS)	1,001,230
<i>Total Deferred Outflow of Resources</i>	<u>1,290,351</u>
<i>Total Assets and Deferred Outflow of Resources</i>	<u>5,139,620</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	22,490
Interest Payable	100,958
Payroll Payable	97,313
Due to Other Governments	11,007
Unearned Revenue	2,214
Capital Lease Payable	533
Capital Lease Bond Notes Payable	34,821
<i>Total Current Liabilities</i>	<u>269,336</u>

**Long Term Liabilities:**

Capital Lease Payable	1,680
Capital Lease Bond Notes Payable	3,021,025
Net Pension Liability	4,428,632
<i>Total Long Term Liabilities</i>	<u>7,451,337</u>
<i>Total Liabilities</i>	<u>7,720,673</u>

**Deferred Inflow of Resources:**

Pension (STRS & SERS)	25,318
<i>Total Deferred Inflow of Resources</i>	<u>25,318</u>
<i>Total Liabilities and Deferred Inflow of Resources</i>	<u>7,745,991</u>

**Net Position:**

Net Investment in Capital Assets	(388,002)
Net Restricted for Debt Purposes	180,427
Unrestricted	(2,398,796)
<i>Total Net Position</i>	<u>(\$2,606,371)</u>

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

Constellation Schools: Madison Community Elementary  
 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	\$2,720,621
Casino Tax Distribution	15,158
Other Operating Revenues	139,632
<i>Total Operating Revenues</i>	<u>2,875,411</u>

**Operating Expenses:**

Salaries	1,490,051
Fringe Benefits	480,392
Change in Net Pension Liability	188,947
Purchased Services	988,809
Materials and Supplies	120,433
Capital Outlay	10,491
Depreciation	97,007
Other Operating Expenses	45,585
<i>Total Operating Expenses</i>	<u>3,421,715</u>
 Operating Loss	 <u>(546,304)</u>

**Non-Operating Revenues & Expenses:**

Interest Income	328
Interest Expense	(216,608)
Private Grants and Contributions	10,857
Federal and State Grants	609,809
<i>Total Non-Operating Revenues &amp; Expenses</i>	<u>404,386</u>

Change in Net Position	(141,918)
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Net Position at Beginning of the Year - Restated (See Note II.4)	(2,464,453)
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Net Position at End of Year	<u>(\$2,606,371)</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Madison Community Elementary**  
**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	\$2,735,779
Cash Payments to Suppliers for Goods and Services	(1,630,466)
Cash Payments to Employees for Services	(1,392,738)
Other Operating Revenues	138,980
Net Cash Used for Operating Activities	<u>(148,445)</u>

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions	10,857
Federal and State Grants Received	<u>649,708</u>
Net Cash Provided by Noncapital Financing Activities	<u>660,565</u>

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

Payments for Capital Acquisitions	(85,018)
Decrease in Escrow Funds	30,817
Increase in Bond Reserve Accounts	(12,267)
Bond Principal Payment	(33,285)
Bond Interest Payments	(202,991)
Equipment Lease Principal Payments	(97)
Equipment Lease Interest Payments	<u>(11)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(302,852)</u>

**Cash Flows from Investing Activities:**

Interest Revenue	328
Net Cash Provided by Investing Activities	<u>328</u>
Net Increase in Cash	209,596
Cash at Beginning of Year	<u>901,661</u>
Cash at End of Year	<u>\$1,111,257</u>

Non Cash Transaction: At June 30, 2017 the school purchased \$2,310 in capital assets on account.

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

**Constellation Schools: Madison Community Elementary**  
**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	(\$546,304)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation and Amortization	97,007
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**Changes in Assets, Liabilities, Deferred Inflows of Resources  
and Deferred Outflows of Resources:**

(Increase) in Accounts Receivable	(116)
(Increase) in Prepaid Expenses	(32,180)
Decrease in Due from Other Governments	31,314
(Increase) in Deferred Outflows - Pensions	(567,810)
Increase in Accounts Payable	5,431
Increase in Payroll Payable	97,313
Increase in Due to Other Governments	10,693
(Decrease) in Unearned Revenue	(536)
Increase in Net Pension Liability	990,594
(Decrease) in Deferred Inflows - Pensions	<u>(233,851)</u>
 Total Adjustments	<u>397,859</u>
 Net Cash Used for Operating Activities	<u>(\$148,445)</u>

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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

Constellation Schools: Madison Community Elementary (MDCE) is a nonprofit corporation established December 5, 2003 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 March 28, 2006, MDCE 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 MDCE. MDCE, which is part of Ohio's education program, is independent of any school district. MDCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MDCE.

MDCE was approved for operation as Madison Community School on January 20, 2004 under a contract between the Governing Authority of MDCE and Lucas County Educational Service Center (LCESC) as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2018. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. For further discussion of the sponsor services see Note XIV.

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

MDCE 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 MDCE' instructional facility staffed by 36 certificated full time teaching personnel and 10 support staff who provide services to 304 students. During 2017, the board members for MDCE also serve as the board for Constellation Schools: Westpark Community Elementary, Constellation Schools: Puritas Community Elementary and Constellation Schools: Stockyard Community Elementary.

### **II. Summary of Significant Accounting Policies**

The financial statements of MDCE 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 MDCE's accounting policies are described below.

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

**- A Community School -**

**Cuyahoga County, Ohio**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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### **1. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

### **2. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflow of resources and all liabilities and deferred inflow 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. MDCE 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 MDCE 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 MDCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to MDCE 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, MDCE 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*.

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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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 MDCE.

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 MDCE.

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 MDCE.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in MDCE'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	\$ (2,081,770)
Adjustments:	
Deferred Outflows - Pension	64,426
Net Pension Liability	(406,778)
Deferred Inflows - Pension	<u>(40,331)</u>
Restated Net Position, July 1, 2016	<u>\$ (2,464,453)</u>

**CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**  
**- A Community School -**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**5. Cash**

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

**6. Budgetary Process**

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

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

Monies due MDCE 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 fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$1,000 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated except for land. Depreciation of buildings, building improvements, technology 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:

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

**9. Intergovernmental Revenues**

MDCE 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

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

**- A Community School -  
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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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which all eligibility requirements have been met. MDCE 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 \$3,345,588.

### **10. Private Grants and Contributions**

MDCE receives 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. MDCE received grants and contributions totaling \$10,857 for the 2017 school year.

### **11. Compensated Absences**

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

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

**- A Community School -**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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### **14. Unearned Revenue**

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

### **15. Deferred Inflow of Resources and Deferred Outflow of Resources**

A deferred outflow of resources is a consumption of assets by MDCE 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 XI.

A deferred inflow of resources is an acquisition of assets by MDCE 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 XI.

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.

### **III. Deposits**

At fiscal year end June 30, 2017, the carrying amount of MDCE's deposits totaled \$1,111,257 and its bank balance was \$1,129,287. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2017, \$879,287, of the bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of MDCE and the Cleveland Cuyahoga County Port Authority totaled \$425,081 at fiscal year end June 30, 2017. 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, MDCE 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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of MDCE.

**IV. Capital Assets**

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

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
<b>Capital Assets Not Being Depreciated:</b>				
Land	<u>\$80,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$80,000</u>
<b>Capital Assets Being Depreciated:</b>				
Building	720,000	0	0	720,000
Building Improvements	1,698,025	80,107	0	1,778,132
Technology and Software	105,927	2,310	0	108,237
Furniture and Equipment	<u>117,119</u>	<u>4,910</u>	<u>0</u>	<u>122,029</u>
<b>Total Capital Assets Being Depreciated</b>	<u>2,641,071</u>	<u>87,327</u>	<u>0</u>	<u>2,728,398</u>
<b>Less Accumulated Depreciation:</b>				
Building	(153,000)	(18,000)	0	(171,000)
Building Improvements	(279,946)	(48,315)	0	(328,261)
Technology and Software	(61,041)	(20,206)	0	(81,247)
Furniture and Equipment	<u>(81,122)</u>	<u>(10,486)</u>	<u>0</u>	<u>(91,608)</u>
<b>Total Accumulated Depreciation</b>	<u>(575,109)</u>	<u>(97,007)</u>	<u>0</u>	<u>(672,116)</u>
<b>Capital Assets Being Depreciated, Net of Accumulated Depreciation</b>	<u>2,065,962</u>	<u>(9,680)</u>	<u>0</u>	<u>2,056,282</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$2,145,962</u>	<u>(\$9,680)</u>	<u>\$0</u>	<u>\$2,136,282</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**V. Purchased Services**

Purchased Services include the following:

Instruction	\$146,658
Pupil Support Services	39,680
Staff Development & Support	106,644
Administrative	446,749
Occupancy Costs	148,309
Food Services	99,925
Student Activities	844
Total Purchased Services	<u>\$988,809</u>

**VI. Capital Equipment Lease Payable**

During fiscal year 2017, MDCE entered into a forty-eight-month lease for technology equipment with Winthrop Leasing. This lease meets 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 \$2,310 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 2017 totaled \$97 and interest paid totaled \$11. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2018	\$533	\$109	\$642
2019	563	79	642
2020	595	47	642
2021	522	13	535
Total	<u>\$2,213</u>	<u>\$248</u>	<u>\$2,461</u>

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

**- A Community School -**

**Cuyahoga County, Ohio**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

### **VII. School Building Purchase**

In order to finance a multi-million dollar expansion project during fiscal year 2008 the building and land located at West 98<sup>th</sup> and Madison in Cleveland was purchased by The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. MDCE 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 MDCE (See Note VIII). 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.

### **VIII. Capital Lease Bond Notes Payable**

On April 10, 2014 MDCE 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 IX). 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. MDCE 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, 2017 is \$3,055,846 and interest payable due July 1, 2017 is \$100,947. Interest paid during 2017 totaled \$202,991. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	<u>6/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/17</u>	<u>Due In One Year</u>
Series A	\$3,070,385	\$0	\$0	\$3,070,385	\$34,821
Series B	33,285	0	(33,285)	0	0
Bond Discount	(15,231)	0	692	(14,539)	0
<b>TOTALS</b>	<b><u>\$3,088,439</u></b>	<b><u>\$0</u></b>	<b><u>(\$32,593)</u></b>	<b><u>\$3,055,846</u></b>	<b><u>\$34,821</u></b>

**CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY****- A Community School -****Cuyahoga County, Ohio****NOTES TO THE FINANCIAL STATEMENTS  
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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. MDCE's share of bond issuance costs totaling \$158,879 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by \$333,866. 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 \$16,789 for MDCE, is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. As of June 30, 2017 the unamortized balances for the cost to refinance and the bond discount are \$289,121 and \$14,539 respectively.

The Bond Indenture requires MDCE to meet certain covenants. As of June 30, 2017 MDCE is in compliance with those covenants. The Bond Indenture also requires all of the participating schools to meet certain covenants. As of June 30, 2017 three of the schools leasing three of the buildings did not meet the required debt service coverage ratio (DSCR). Unless waived by the owners of a majority of the principal amount of bonds outstanding, the school will be required to hire a management consultant to make recommendations with respect to increasing revenues, decreasing expenses or other financial matters of the school which are relevant to increasing the DSCR to at least 1.00 to 1.10.

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, 2017. Lease payments were made by MDCE 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 2017 to fund interest, reserves and bond expenses totaled \$256,512. The balances of escrow and reserve accounts as of June 30, 2017 are as follows:

Bond Debt Service Account	\$118,458
Expense Fund	<u>11,388</u>
Total Bond Escrow Accounts	<u><u>\$129,846</u></u>
Debt Service Reserve	\$252,080
Operating Reserve	<u>43,155</u>
Total Bond Reserve Accounts	<u><u>\$295,235</u></u>

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The assets refinanced and through the capital lease as of June 30, 2017 are as follows:

Land	\$80,000
Building	720,000
Building Improvements	<u>1,308,412</u>
Sub-Total	2,108,412
Accumulated Depreciation	<u>(431,032)</u>
Net Book Value	<u><u>\$1,677,380</u></u>

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

Year	Principal	Interest	Total
2018	\$34,821	\$201,326	\$236,147
2019	36,869	199,324	236,193
2020	51,207	197,204	248,411
2021	54,280	194,260	248,539
2022	57,864	191,139	249,003
2023 - 2027	344,113	900,332	1,244,444
2028 - 2032	473,155	774,310	1,247,464
2033 - 2037	652,380	597,838	1,250,218
2038 - 2042	908,928	346,409	1,255,337
2043 - 2044	<u>456,768</u>	<u>46,766</u>	<u>503,535</u>
Total	<u><u>\$3,070,385</u></u>	<u><u>\$3,648,908</u></u>	<u><u>\$6,719,292</u></u>

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

On April 10, 2014 MDCE 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 VIII). 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.

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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### **X. Risk Management**

#### **1. Property and Liability Insurance**

MDCE 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, MDCE 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**

MDCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been twelve claims filed by MDCE employees with the Ohio Worker's Compensation System between January 1, 2012 and June 30, 2017. The total payments made for these claims have been \$205,615. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MDCE as June 30, 2017.

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

MDCE 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 MDCE for the fiscal year is \$221,973.

### **XI. 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

# **CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY**

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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 MDCE'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 MDCE's obligation for this liability to annually required payments. MDCE cannot control benefit terms or the manner in which pensions are financed; however, MDCE 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 – MDCE 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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	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 MDCE 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.

MDCE's contractually required contribution to SERS was \$46,307 for fiscal year 2017.

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

Plan Description – MDCE 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](http://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

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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.

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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. MDCE 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.

MDCE's contractually required contribution to STRS was \$168,357 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. MDCE'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:

	<b>STRS</b>	<b>SERS</b>	<b>Total</b>
Proportionate Share of the Net Pension Liability	\$ 3,696,345	\$ 732,287	\$ 4,428,632
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01104276%	0.01000518%	
Prior Measurement Date	<u>0.01040154%</u>	<u>0.00987290%</u>	
Change in Proportionate Share	<u>0.00064122%</u>	<u>0.00013228%</u>	
Pension Expense	\$ 299,391	\$ 104,220	\$ 403,611

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 MDCE'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.

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At June 30, 2017, MDCE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 149,348	\$ 9,877	\$ 159,225
Net Difference between Projected and Actual Earnings on Pension Plan Investments	306,894	60,405	367,299
Changes of Assumptions	0	48,884	48,884
Changes in Proportion and Differences between MDCE Contributions and Proportionate Share of Contributions	149,275	61,883	211,158
MDCE Contributions Subsequent to the Measurement Date	168,357	46,307	214,664
<b>Total Deferred Outflows of Resources</b>	<b>\$ 773,874</b>	<b>\$ 227,356</b>	<b>\$ 1,001,230</b>
<b>Deferred Inflows of Resources</b>			
Changes in Proportion and Differences between MDCE Contributions and Proportionate Share of Contributions	\$ 25,318	\$ 0	\$ 25,318

\$214,664 reported as deferred outflows of resources related to pension resulting from MDCE 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	\$ 101,118	\$ 58,044	\$ 159,162
2019	101,115	58,003	159,118
2020	218,880	47,637	266,517
2021	159,086	17,365	176,451
	<b>\$ 580,199</b>	<b>\$ 181,049</b>	<b>\$ 761,248</b>

## 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.

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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

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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	<u>10.00</u>	3.00	
	<u><u>100.00</u></u> %		

**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 MDCE'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 MDCE'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.

MDCE's Proportionate Share of the Net Pension Liability	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
	\$ 969,502	\$ 732,287	\$ 533,728

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**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	<u>100.00</u> %	<u>7.61</u> %

\*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.

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**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 MDCE's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents MDCE'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 MDCE'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:

MDCE's Proportionate Share of the Net Pension Liability	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
	\$ 4,912,142	\$ 3,696,345	\$ 2,670,748

**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 MDCE's net pension liability is expected to be significant.

## **XII. Post-Employment Benefits**

### **1. School Employees Retirement System**

Health Care Plan Description - MDCE 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

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the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://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, MDCE's surcharge obligation was \$3,231.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. MDCE's contributions for health care for the fiscal year ended June 30, 2015, was \$4,269. The full amount has been contributed for fiscal year 2015.

#### **2. State Teachers Retirement System**

Plan Description – MDCE 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](http://www.strsoh.org) or by calling (888) 227-7877.

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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, EC did not contribute to health care in the last three fiscal years.

### **XIII. Contingencies**

#### **1. Grants**

MDCE 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 MDCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MDCE 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 did not perform such a review on MDCE for fiscal year 2017.

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 MDCE.

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In addition, MDCE's contracts with their Sponsor, ESC of Lake Erie West and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by MDCE from the State (See Note XIV). 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, MDCE.

#### **XIV. Sponsorship and Management Agreements**

MDCE 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, 2018. Sponsorship fees are calculated as 2.0% through December 31, 2016 and 2.5% effective January 1, 2017 of the Fiscal Year 2017 Foundation payments received by MDCE, from the State of Ohio. The total amount due from MDCE for fiscal year 2017 was \$59,867, all of which was paid prior to June 30, 2017.

MDCE entered into an agreement with Constellation Schools 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 payment received by MDCE from the State of Ohio plus a fixed fee of \$180,000. The total fee cannot exceed twice the fixed fee. The total amount due from MDCE for the fiscal year ending June 30, 2017 was \$350,040 all of which was paid prior to June 30, 2017.

#### **XV. 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.

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*Required Supplementary Information*

*Schedule of the School's Proportionate Share of the Net Pension Liability  
Last Four Fiscal Years (1)*

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b><i>State Teachers Retirement System (STRS)</i></b>				
MDCE's Proportion of the Net Pension Liability	0.01104276%	0.01040154%	0.01054914%	0.01054914%
MDCE's Proportionate Share of the Net Pension Liability	\$3,696,345	\$2,874,681	\$2,565,916	\$3,056,502
MDCE's Covered Payroll (2)	\$1,195,571	\$1,010,614	\$975,038	\$979,185
MDCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	309.17%	284.45%	263.16%	312.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>				
MDCE's Proportion of the Net Pension Liability	0.01000518%	0.00987290%	0.00808789%	0.00808789%
MDCE's Proportionate Share of the Net Pension Liability	\$732,287	\$563,357	\$409,324	\$480,961
MDCE's Covered Payroll (2)	\$335,286	\$195,918	\$159,971	\$80,867
MDCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	218.41%	287.55%	255.87%	594.76%
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.

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*Required Supplementary Information*

*Schedule of School Contributions*

*Last Ten Fiscal Years*

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$168,357	\$167,380	\$141,486	\$126,755
Contributions in Relation to the Contractually Required Contribution	<u>(168,357)</u>	<u>(167,380)</u>	<u>(141,486)</u>	<u>(126,755)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
MDCE's Covered Payroll	\$1,202,550	\$1,195,571	\$1,010,614	\$975,038
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$46,307	\$46,940	\$25,822	\$22,172
Contributions in Relation to the Contractually Required Contribution	<u>(46,307)</u>	<u>(46,940)</u>	<u>(25,822)</u>	<u>(22,172)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
MDCE's Covered Payroll	\$330,764	\$335,286	\$195,918	\$159,971
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

Note - 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.

<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$127,294	\$146,017	\$148,901	\$122,612	\$100,878	\$82,945
<u>(127,294)</u>	<u>(146,017)</u>	<u>(148,901)</u>	<u>(122,612)</u>	<u>(100,878)</u>	<u>(82,945)</u>
<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
\$979,185	\$1,123,208	\$1,145,392	\$943,169	\$775,985	\$638,038
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$11,192	\$12,765	\$11,976	\$11,671	\$11,014	\$8,700
<u>(11,192)</u>	<u>(12,765)</u>	<u>(11,976)</u>	<u>(11,671)</u>	<u>(11,014)</u>	<u>(8,700)</u>
<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
\$80,867	\$94,907	\$95,274	\$86,196	\$111,931	\$88,595
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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November 22, 2017

To the Board of Trustees  
Constellation Schools: Madison Community Elementary  
Cuyahoga County, Ohio  
2015 West 95<sup>th</sup> Street  
Cleveland, OH 44102

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Constellation Schools: Madison Community Elementary, 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 November 22, 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.

Constellation Schools: Madison Community Elementary  
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*  
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### **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.

*Kear & Associates, Inc.*

Cambridge, Ohio



# Dave Yost • Auditor of State

MADISON 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.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 4, 2018