



OHIO AUDITOR OF STATE
KEITH FABER



**CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
LORAIN COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Constellation Schools: Elyria Community
Lorain County
300 North Abbe Road
Elyria, OH 44035

5730 Broadview Rd
Parma, OH 44134

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Constellation Schools: Elyria Community, Lorain County, Ohio (the School), as of and for the year ended June 30, 2019, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Efficient • Effective • Transparent

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Constellation Schools: Elyria Community, Lorain County, Ohio as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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.



Keith Faber
Auditor of State

Columbus, Ohio

November 20, 2019

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

The discussion and analysis of Constellation Schools: Elyria Community (EC) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the financial performance of EC 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 EC.

Financial Highlights

Key financial highlights for 2019 include the following:

- Net position increased \$229,130, which represents a 10.81% increase from 2018. Increased enrollment resulted in an increase in state foundation and poverty aid. EC saw a decrease in federal grant revenues. Expenses increased by \$1,548,517 due to the change in pension and OPEB liability/asset and increases in purchased services, materials and supplies, and other expenses, which more than offset the decreases in salaries, fringe benefits, and depreciation expense.
- Total assets and deferred outflow of resources decreased \$534,353 which represents a 9.52% decrease from 2018. Cash, current assets, capital assets and deferred outflow of resources all decreased, while net OPEB assets increased.
- Liabilities and deferred inflow of resources decreased \$763,483, which represents a 9.87% decrease from 2018. This is due to decreases in net pension and OPEB liability, accounts payable, payroll payable and unearned revenue, which more than offset increases in due to other governments, mortgage notes payable, and deferred inflow of resources.
- Operating revenues increased by \$12,571, which represents a 0.32% increase from 2018. An increase in state foundation revenue due to enrollment increases and services provided to other schools was offset by a decrease in materials fees collected.
- Expenses increased \$1,548,517 which represents a 60.12% increase from 2018. Increases in the change in net pension and OPEB liability/asset, purchased services, materials and supplies, and other expenses offset decreases in salaries, fringe benefits, and capital outlay and depreciation from 2018.
- Non-operating revenues decreased by \$47,780, which represents a 10.14% decrease from 2018. This is due to a decrease in federal grants.

Using this Financial Report

This report consists of four parts: Management's "Discussion and Analysis," the Financial Statements, Notes to the Financial Statements and Required Supplementary 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: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

Statement of Net Position

The Statement of Net Position looks at how well EC has performed financially through June 30, 2019. 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, 2019 and 2018 for EC.

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Assets and Deferred Outflow of Resources				
Cash	\$590,008	\$701,743	(\$111,735)	-15.92%
Other Current Assets	57,317	114,331	(57,014)	-49.87%
Non-Current Assets	30,287	30,287	0	0.00%
Net OPEB Assets	255,954	0	255,954	100.00%
Capital Assets, Net	2,726,876	2,806,226	(79,350)	-2.83%
Deferred Outflow of Resources	<u>1,420,582</u>	<u>1,962,790</u>	<u>(542,208)</u>	<u>-27.62%</u>
Total Assets and Deferred Outflow of Resources	<u>5,081,024</u>	<u>5,615,377</u>	<u>(534,353)</u>	<u>-9.52%</u>
Liabilities and Deferred Inflow of Resources				
Current Liabilities	360,346	759,459	(399,113)	-52.55%
Long-Term Liabilities	5,611,875	6,420,299	(808,424)	-12.59%
Deferred Inflow of Resources	<u>1,000,209</u>	<u>556,155</u>	<u>444,054</u>	<u>79.84%</u>
Total Liabilities and Deferred Inflow of Resources	<u>6,972,430</u>	<u>7,735,913</u>	<u>(763,483)</u>	<u>-9.87%</u>
Net Position				
Net Investment in Capital Assets	1,560,097	1,503,091	57,006	3.79%
Unrestricted	<u>(3,451,503)</u>	<u>(3,623,627)</u>	<u>172,124</u>	<u>-4.75%</u>
Total Net Position	<u>(\$1,891,406)</u>	<u>(\$2,120,536)</u>	<u>\$229,130</u>	<u>10.81%</u>

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

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, 2019.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for EC for fiscal years ended June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$3,680,678	\$3,627,848	\$52,830	1.46%
Casino Tax Distribution	25,354	25,416	(62)	-0.24%
Other Operating Revenues	223,971	264,168	(40,197)	-15.22%
Total Operating Revenues	<u>3,930,003</u>	<u>3,917,432</u>	<u>12,571</u>	<u>0.32%</u>
Federal and State Grants	423,361	471,141	(47,780)	-10.14%
Total Non-Operating Revenues	<u>423,361</u>	<u>471,141</u>	<u>(47,780)</u>	<u>-10.14%</u>
Total Revenues	<u>4,353,364</u>	<u>4,388,573</u>	<u>(35,209)</u>	<u>-0.80%</u>
Expenses				
Salaries	2,139,093	2,170,778	(31,685)	-1.46%
Fringe Benefits	630,777	673,982	(43,205)	-6.41%
Change in Net Pension and OPEB Liability/Asset	(349,483)	(1,863,914)	1,514,431	81.25%
Purchased Services	1,267,743	1,158,793	108,950	9.40%
Materials and Supplies	179,318	152,200	27,118	17.82%
Capital Outlay	4,176	10,768	(6,592)	-61.22%
Depreciation and Amortization	137,265	159,489	(22,224)	-13.93%
Other Expenses	115,345	113,621	1,724	1.52%
Total Expenses	<u>4,124,234</u>	<u>2,575,717</u>	<u>1,548,517</u>	<u>60.12%</u>
Changes in Net Position	<u>229,130</u>	<u>1,812,856</u>	<u>(1,583,726)</u>	<u>-87.36%</u>
Net Position: Beginning of the Year	<u>(2,120,536)</u>	<u>(3,933,392)</u>	<u>1,812,856</u>	<u>-46.09%</u>
Net Position: End of Year	<u>(\$1,891,406)</u>	<u>(\$2,120,536)</u>	<u>\$229,130</u>	<u>10.81%</u>

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

The most significant changes in revenues from 2018 to 2019 are increases of \$52,830 in State Foundation and Poverty Based Assistance funding, decreases of \$47,780 in federal grant funds, a decrease of \$40,197 in other operating revenue mainly due to the decrease in material fees. Minor decreases occurred in other categories of revenues.

Expenses increased \$1,548,517 from 2018 to 2019 due to a \$1,514,431 increase in the change in net pension and OPEB liability/asset as well as increased overall operating expenses. Salaries and Fringe Benefits decreased \$74,890 due to staff reductions. The change in Net Pension and OPEB Liability/Asset is due to recognition of pension and OPEB liabilities per GASB 68 and 75. Purchased services increased \$108,950 due to increases in technology integration, equipment leasing, and food service. Materials and Supplies increased by \$27,118 due to increased purchases of instructional workbooks and online instruction. Capital Outlay decreased \$6,592 due to reduced classroom technology and equipment purchases that did not meet EC's capitalization threshold. Depreciation decreased by \$22,224 as a result of capital assets reaching full depreciation during the fiscal year. Other Expenses increased \$1,724 due to a combination of increases in interest and decreases in facility expenditures and miscellaneous expenses during the year.

Capital Asset

As of June 30, 2019, EC had \$2,726,876 invested in land, building, building improvements, technology and software, and furniture and equipment, net of depreciation. This is a \$79,350 decrease from June 30, 2018.

The following schedule provides a summary of Capital Assets as of June 30, 2019 and 2018 for EC.

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$422,900	\$422,900	\$0	0.00%
Construction in Process	0	13,900	(13,900)	-100.00%
Building	1,457,371	1,506,943	(49,572)	-3.29%
Building Improvements	792,420	783,438	8,982	1.15%
Technology and Software	14,532	43,427	(28,895)	-66.54%
Furniture and Equipment	39,653	35,618	4,035	11.33%
Net Capital Assets	<u>\$2,726,876</u>	<u>\$2,806,226</u>	<u>(\$79,350)</u>	<u>-2.83%</u>

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

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

Debt Service

On August 23, 2004 EC purchase the Allen School building for the instructional operations of the school. On November 21, 2013 the Eastgate School building was purchased to operate the schools' middle school grades.

Financing of the first purchase was accomplished through two mortgages. The first mortgage held by PNC Bank with an original face value of \$918,000, a term of fifteen years and an interest rate of 7.69% per annum was refinanced in November 2013 with CF Bank. The CF Bank mortgage was issued in the amount of \$535,000 for a five-year term at 4.75% interest. The note amortizes based on a fifteen-year schedule with a balloon payment due at the end of the fifth year. The second mortgage, which was paid off during previous fiscal years, was held by Horizon Activities Center. The CF Bank loan was refinanced in November 2018, as detailed below.

On November 21, 2013 EC entered into two mortgage agreements relating to the purchase of the Eastgate School property. A first mortgage is held by CF Bank in the amount of \$1,020,000 with a six-year term at 4.75% interest. The first year of the note was an acquisition and construction note with principal payments deferred until the second year. Amortization of the note began in the second year based on a fifteen-year schedule with a balloon payment due at the end of the sixth year. A second position mortgage note of \$250,000 was obtained from Eastgate Company LLC (the seller) for a period of five years at 4% interest as part of the building purchase. The Eastgate Company LLC mortgage was paid in full during the fiscal year ending June 30, 2019. The CF loan was refinanced in November 2018, as detailed below.

During the fiscal year, EC and CF Bank agreed to combine the two existing CF Bank mortgage notes into one note effective December 6, 2018. The replacement note carries a face value of \$1,205,114, interest at approximately 5.54% annually and be for a term of two years. Payments will be calculated based on a ten-year repayment schedule with a balloon payment due at the end of the second year.

For more information on debt service see the Notes to the Financial Statements.

Equipment Financing

During fiscal year 2015, EC entered into a 44-month lease for \$54,623 worth of technology equipment with Celtic Leasing (which was fully depreciated as of June 30, 2019). During fiscal year 2016, EC entered into another 48-month lease with Winthrop Resources Corporation for \$55,134 worth of technology equipment (accumulated depreciation as of June 30, 2019 is \$52,837). During fiscal year 2017, EC entered into another 48-month lease with Winthrop Resources Corporation for \$26,335 worth of technology equipment (accumulated depreciation as of June 30, 2019 is \$12,215).

The outstanding principal value as of June 30, 2019 on the capital lease equipment payable with Winthrop Resources Corporation is \$16,609. The lease value has been recorded as capital equipment to recognize the asset and as capital equipment lease payable to recognize the lease debt.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

During fiscal year 2014, EC secured a four-year loan with CF Bank to purchase \$15,732 of technology equipment (the equipment was fully depreciated as of June 30, 2019). During fiscal year 2015, EC secured another four-year loan with CF Bank to purchase \$2,105 of technology equipment (the equipment was fully depreciated as of June 30, 2019). Both loans were for a term of 4 years with interest at 3.99% per annum. Equipment purchased with loan proceeds has been capitalized. Both loans were repaid in full as of June 30, 2019.

Net Pension and Other Post-Employment Benefits (OPEB) Liabilities/Asset

The net pension liability is the largest single liability reported by EC at June 30, 2019 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* and GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to pension and other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of EC's actual financial condition by adding deferred inflow related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflow related to pension and OPEB and net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability/asset*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal EC's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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, EC is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio revised Code permits, but does not require the retirement

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, EC's statements include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflow/outflow.

Current Financial Issues

EC opened in the fall of 2001. It has grown from 75 students, eight teaching staff members and expenses of \$485,420 to a total of 486 students, 52 teaching staff members and expenses of \$4,124,234 (including a change of \$349,483 for the change in Net Pension and OPEB Liability/Asset. During this time, we have purchased two educational facilities. The second facility was purchased in November 2013 from the previous landlord of the building. This purchase allowed the school to continue expansion at a second location for middle school grades. Enrollment increases continue due to the reputation of the school. During 2016 a property was purchased by the original facility to construct a parking lot for use by the school.

The Board of Directors, school management and school staff continue to work diligently to ensure that EC 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 EC and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Caroline Zito, Treasurer, by mail at

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at zito.caroline@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Net Position
As of June 30, 2019

Assets:

Current Assets:

Cash	\$590,008
Accounts Receivable	335
Prepaid Expenses	1,404
Due from Other Governments	55,578
<i>Total Current Assets</i>	647,325

Non-Current Assets:

Security Deposits	30,287
Net OPEB Assets	255,954
Non-Depreciable Capital Assets	422,900
Capital Assets (Net of Accumulated Depreciation)	2,303,976
<i>Total Non-Current Assets</i>	3,013,117
<i>Total Assets</i>	3,660,442

Deferred Outflow of Resources:

Pension and OPEB (STRS & SERS)	1,420,582
<i>Total Deferred Outflow of Resources</i>	1,420,582
<i>Total Assets and Deferred Outflow of Resources</i>	5,081,024

Liabilities:

Current Liabilities:

Accounts Payable	14,400
Interest Payable	3,505
Payroll Payable	198,478
Unearned Revenue	10,610
Due to Other Governments	27,462
Loan Payable	0
Capital Lease Equipment Payable	10,663
Mortgage Notes Payable	95,228
<i>Total Current Liabilities</i>	360,346

Long Term Liabilities:

Capital Lease Equipment Payable	5,946
Mortgage Notes Payable	1,054,942
Net Pension and OPEB Liability	4,550,987
<i>Total Long Term Liabilities</i>	5,611,875
<i>Total Liabilities</i>	5,972,221

Deferred Inflow of Resources:

Pension and OPEB (STRS & SERS)	1,000,209
<i>Total Deferred Inflow of Resources</i>	1,000,209
<i>Total Liabilities and Deferred Inflow of Resources</i>	6,972,430

Net Position:

Net Investment in Capital Assets	1,560,097
Unrestricted	(3,451,503)
<i>Total Net Position</i>	(\$1,891,406)

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

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$3,680,678
Casino Tax Distribution	25,354
Other Operating Revenues	223,971
<i>Total Operating Revenues</i>	3,930,003

Operating Expenses:

Salaries	2,139,093
Fringe Benefits	630,777
Change in Net Pension and OPEB Liability/Asset	(349,483)
Purchased Services	1,267,743
Materials and Supplies	179,318
Capital Outlay	4,176
Depreciation	137,265
Other Operating Expenses	46,179
<i>Total Operating Expenses</i>	4,055,068

Operating Loss	(125,065)
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Non-Operating Revenues & (Expenses):

Interest Expense	(69,166)
Federal and State Grants	423,361
<i>Total Non-Operating Revenues & (Expenses)</i>	354,195

Change in Net Position	229,130
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Net Position at Beginning of the Year	(2,120,536)
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Net Position at End of Year	(\$1,891,406)
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$3,706,032
Cash Payments to Suppliers for Goods and Services	(2,079,928)
Cash Payments to Employees for Services	(2,146,649)
Other Operating Revenues	232,880
	<u>232,880</u>
Net Cash Used for Operating Activities	<u>(287,665)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	437,607
	<u>437,607</u>
Net Cash Provided by Noncapital Financing Activities	<u>437,607</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(57,915)
Loan Principal Payments	(329)
Loan Interest Payments	(5)
Mortgage Loan Principal Payments	(114,167)
Mortgage Loan Interest Payments	(61,420)
Equipment Lease Principal Payments	(27,728)
Equipment Lease Interest Payments	(113)
	<u>(113)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(261,677)</u>
Net Decrease in Cash	(111,735)
Cash at Beginning of Year	701,743
	<u>701,743</u>
Cash at End of Year	<u>\$590,008</u>

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

(continued)

Constellation Schools: Elyria Community Elementary
Lorain County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(Continued)

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

Operating Loss	(\$125,065)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	137,265
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**Changes in Assets, Deferred Outflow of Resources,
Liabilities and Deferred Inflow of Resources:**

Decrease in Due from Other Governments	5,922
Decrease in Accounts Receivable	9,630
Decrease in Prepaid Expenses	27,215
(Increase) in Net OPEB Assets	(255,954)
Decrease in Deferred Outflow - Pension and OPEB	542,208
(Decrease) in Accounts Payable	(5,946)
(Decrease) in Payroll Payable	(7,556)
Increase in Due to Other Governments	21,074
(Decrease) in Unearned Revenue	(721)
(Decrease) in Net Pension and OPEB Liability	(1,079,791)
Increase in Deferred Inflow - Pension and OPEB	444,054

Total Adjustments	(162,600)
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Net Cash Used for Operating Activities	(\$287,665)
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CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
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I. Description of the School and Reporting Entity

Constellation Schools: Elyria Community (EC) is a nonprofit corporation established on August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On November 7, 2001, EC 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 which may adversely affect the tax-exempt status of EC. EC, which is part of Ohio's education program, is independent of any school district. EC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of EC.

EC was approved for operation under a contract between the Governing Authority of EC and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. On October 16, 2003 EC entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2024. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XV for further discussion of the sponsor services.

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

EC 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 EC instructional facilities staffed by 52 certificated full time teaching personnel and 10 support staff that provide services to 486 students. During 2019, the board members for EC also serve as the board for Constellation Schools: Old Brooklyn Community Elementary, Constellation Schools: Parma Community and Constellation Schools: Lorain Community Elementary.

II. Summary of Significant Accounting Policies

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

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1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflow of resources and all liabilities 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. EC 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 EC 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 EC must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to EC 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, 2019, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School.

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GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the School's fiscal year 2019 financial statements; however, there was no effect on beginning net position.

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

Monies due to EC for the year ended June 30, 2019 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

7. Capital Assets, Mortgage Fees 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 \$2,500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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8. Intergovernmental Revenues

EC currently participates in the State Foundation Program, the State Poverty Based Assistance Program, Community Schools Facilities Allocation and Casino Tax Distribution. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. EC 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 2019 school year totaled \$4,129,393.

9. Private Grants and Contributions

EC received grants and contributions from private sources to support the school's programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. EC did not receive any private grants or contributions for the 2019 fiscal year.

10. Compensated Absences

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

11. Use of Estimates

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

12. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability/asset, deferred outflow of resources and deferred inflow of resources related to pension/OPEB, and pension/OPEB expense; information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the

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pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

13. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations. However, claims and judgments, compensated absences that will be paid from available funds are reported as a liability in the financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

14. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The unearned revenue for EC consists of enrollment application 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 EC 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 and OPEB is described in Note XII and Note XIII.

A deferred inflow of resources is an acquisition of assets by EC 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 and OPEB is described in Note XII and Note XIII.

16. Net Position

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflow of resources and deferred inflow of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the

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enabling legislation adopted by EC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

EC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

17. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

III. Deposits

At fiscal year end June 30, 2019, the carrying amount of EC's deposits totaled \$590,008 and its bank balance was \$591,812. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2019, \$341,812 of the bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

EC has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred and two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred and five percent.

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IV. Purchased Services

Purchased Services include the following:

Instruction	\$121,839
Pupil Support Services	50,593
Staff Development & Support	160,800
Administrative	633,540
Occupancy Costs	183,395
Food Services	114,086
Transportation	2,730
Student Activities	760
Total Purchased Services	<u><u>\$1,267,742</u></u>

V. Capital Assets

A summary of capital assets at June 30, 2019 follows:

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	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019
Capital Assets Not Being Depreciated:				
Land	\$422,900	\$0	\$0	\$422,900
Construction in Process	13,900	0	(13,900)	0
Total Capital Assets Not Being Depreciated:	436,800	0	(13,900)	422,900
Capital Assets Being Depreciated:				
Buildings	1,982,273	0	0	1,982,273
Building Improvements	960,323	58,425	0	1,018,748
Technology and Software	155,983	0	0	155,983
Furniture and Equipment	109,551	13,390	0	122,941
Total Capital Assets Being Depreciated	3,208,130	71,815	0	3,279,945
Less Accumulated Depreciation:				
Buildings	(475,330)	(49,572)	0	(524,902)
Building Improvements	(176,885)	(49,443)	0	(226,328)
Technology and Software	(112,556)	(28,895)	0	(141,451)
Furniture and Equipment	(73,933)	(9,355)	0	(83,288)
Total Accumulated Depreciation	(838,704)	(137,265)	0	(975,969)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	2,369,426	(65,450)	0	2,303,976
Total Capital Assets, Net of Accumulated Depreciation	\$2,806,226	(\$65,450)	(\$13,900)	\$2,726,876

VI. Loan Payable

During fiscal year 2015, EC secured a four-year loan with CF Bank to purchase \$2,105 of technology equipment (the assets are fully depreciated as of June 30, 2019). The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly. The loan matured during the fiscal year ending June 30, 2019. Equipment purchased with loan proceeds has been capitalized.

Principal payments during fiscal year 2019 totaled \$329 and interest paid totaled \$5.

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VII. Capital Equipment Lease Payable

During fiscal year 2015, EC entered into a 44-month lease for technology equipment totaling \$54,623 with Celtic Leasing with an interest rate of 1.72% (the assets are fully depreciated as of June 30, 2019). In fiscal year 2016, EC entered into another 48-month lease with Winthrop Resources Corporation for technology equipment totaling \$55,134 at an interest rate of 6.46% (accumulated depreciation as of June 30, 2019 is \$52,837). During fiscal year 2018, EC entered into another forty-eight-month lease for additional technology equipment with Winthrop Leasing totaling \$26,335 (accumulated depreciation as of June 30, 2019 is \$14,265). These leases meet the criteria of capital leases as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

Assets of technology equipment totaling \$138,196 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 2019 totaled \$27,728 and interest paid totaled \$1,700. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Winthrop		
	Principal	Interest	Total
2020	\$10,663	\$574	\$11,237
2021	5,946	151	6,097
Total	\$16,609	\$725	\$17,334

VIII. Allen School Purchase

On August 23, 2004, EC purchased the former Allen School located at 300 North Abbe Road, Elyria, from the previous landlord, Horizon Activities Center. The purchase price of \$1,200,000, along with other purchase costs totaling \$5,193, have been capitalized and will be depreciated over a forty-year period. All operations of the schools' elementary grade levels are located at this site.

During June 2016, EC purchased a former service station property from Marathon Oil which was across a side street from the school. The purchase price of the property was \$80,000 and other purchase costs totaled \$1,485. The property has been improved for use as a parking lot for the school. The purchase price has been capitalized as land and will not be depreciated. Other purchase costs have been capitalized and will be depreciated over the remaining life of the Allen School building.

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IX. Eastgate School Purchase

On November 21, 2013, EC purchased the former Eastgate School located at 336 South Logan Road, Elyria, from the previous landlord Eastgate Company LLC to house the upper level grades for the school. The purchase price of \$1,100,000, along with other purchase costs totaling \$18,495, have been capitalized and will be depreciated over a forty-year period. All operations of the schools' middle school grade levels are located at this site.

X. Mortgage Notes Payable

On August 23, 2004, EC entered into two mortgage agreements relating to the purchase of the property at 300 North Abbe Road (see note VIII). A first mortgage note in the amount of \$918,000 was held by PNC Bank, National Association (formerly National City Bank). A second mortgage note, which matured during fiscal year 2012, in the amount of \$255,000 was held by Horizon Activities Center and was subordinate to the first mortgage.

The PNC Bank note was refinanced in November 2013 with CF Bank. A first position mortgage note is held by CF Bank in the amount of \$535,000 for a five-year term at 4.75% interest. The note amortizes based on a fifteen-year schedule with a balloon payment due at the end of the fifth year.

On November 21, 2013 EC entered into two mortgage agreements relating to the purchase of the Eastgate School property (Note IX) for \$1,100,000. A first position mortgage note is held by CF Bank in the amount of \$1,020,000 with a six-year term at 4.75% interest. The first year of the note included \$850,000 for acquisition and \$170,000 for construction with principal payments deferred until the second year. The \$170,000 construction portion, held in escrow by CF Bank, was drawn during July, 2015. The note begins to amortize in the second year based on a fifteen-year schedule with a balloon payment due at the end of the sixth year. A second position mortgage note of \$250,000 was obtained from Eastgate Company LLC (the seller) for a period of five years at 4% interest as part of the building purchase. Under terms of the mortgage loan, EC is required to meet certain covenants.

During the fiscal year, EC and CF Bank agreed to combine the two existing CF Bank mortgage notes into one note effective December 6, 2018. The replacement note carries a face value of \$1,205,114, interest at approximately 5.54% annually and be for a term of two years. Payments will be calculated based on a ten-year repayment schedule with a balloon payment due at the end of the second year.

Principal on the combined note was reduced by \$54,944 and interest payments totaled \$36,880. As of June 30, 2019 the outstanding principal balance is \$1,150,170. Interest payable totaling \$3,426 has been recorded as a current liability as of June 30, 2019.

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Principal and interest due on the outstanding mortgage notes as of June 30, 2019 are as follows:

Year	Principal	Interest	Total
2020	\$95,228	\$62,276	\$157,504
2021	\$1,054,942	\$23,063	\$1,078,005
Total	\$1,150,170	\$85,339	\$1,235,509

XI. Risk Management

1. Property and Liability Insurance

EC 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 2019, EC 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

EC makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. There have been three claims filed by EC employees with the Ohio Workers' Compensation System between January 1, 2014 and June 30, 2019. The total payments made for these claims have been \$6,051. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of EC as June 30, 2019.

3. Employee Medical, Dental, Vision and Life Benefits

EC 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 EC for fiscal year 2019 are \$274,842.

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XII. Defined Benefit Pension Plans

1. Net Pension Liability

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

The net pension liability represents EC'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 EC's obligation for this liability to annually required payments. EC cannot control benefit terms or the manner in which pensions are financed; however, EC 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*. Any liability for the contractually-required pension contribution outstanding at the end of the year is included *in* due to other governments.

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

Plan Description – EC non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and EC 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

EC’s contractually required contribution to SERS was \$45,320 for fiscal year 2019.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through 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. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 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. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The

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defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 percent of their annual covered salary. EC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

EC's contractually required contribution to STRS was \$252,031 for fiscal year 2019.

4. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. EC'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:

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	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01236187%	0.01592845%	
Prior Measurement Date	0.01303718%	0.01628987%	
Change in Proportionate Share	-0.00067531%	-0.00036142%	
Proportionate Share of the Net			
Pension Liability	\$ 707,987	\$ 3,502,308	\$ 4,210,295
Pension Expense	\$ 80,210	\$ 423,366	\$ 503,576

Deferred outflow/inflow 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 the EC's proportion of the collective net pension liability. The deferred outflow and deferred inflow 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 outflow and deferred inflow resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2019 EC reported deferred outflow of resources and deferred inflow of resources related to pensions from the following sources:

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	SERS	STRS	Total
Deferred Outflow of Resources			
Differences between Expected and			
Actual Experience	\$ 38,829	\$ 80,843	\$ 119,672
Changes of Assumptions	15,989	620,674	636,663
Changes in Proportion and Differences between			
EC Contributions and Proportionate			
Share of Contributions	32,565	280,944	313,509
EC Contributions Subsequent to the			
Measurement Date	45,320	252,031	297,351
Total Deferred Outflow of Resources	\$ 132,703	\$ 1,234,492	\$ 1,367,195
 Deferred Inflow of Resources			
Differences between Expected and			
Actual Experience	\$ 0	\$ 22,872	\$ 22,872
Net Difference between Projected and			
Actual Earnings on Pension Plan Investments	19,616	212,378	231,994
Changes in Proportion and Differences between			
EC Contributions and Proportionate			
Share of Contributions	21,899	232,307	254,206
Total Deferred Inflow of Resources	\$ 41,515	\$ 467,557	\$ 509,072

\$297,351 reported as deferred outflow of resources related to pension resulting from EC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 60,089	\$ 391,958	\$ 452,047
2021	15,030	234,410	249,440
2022	(23,235)	(52,141)	(75,376)
2023	(6,016)	(59,323)	(65,339)
	\$ 45,868	\$ 514,904	\$ 560,772

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,

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disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an

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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 asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate 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 that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflow 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 EC'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 EC's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what EC's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
EC's Proportionate Share of the Net Pension Liability	\$ 997,253	\$ 707,987	\$ 465,457

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6. Actuarial Assumptions - STRS

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011 through June 30, 2016.

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:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

Sensitivity of EC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the EC's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what EC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

Sensitivity of EC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents EC's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what EC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease	Current Discount Rate	1% Increase
EC's Proportionate Share of the Net Pension Liability	\$ 5,114,659	\$ 3,502,308	\$ 2,137,671

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XIII. Defined Benefit – Other Post-Employment Benefits (OPEB)

1. Net OPEB Asset/Liability

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

The net OPEB asset/liability represents EC's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB asset/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 these estimates annually.

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

GASB 75 assumes the asset/liability is solely that of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees, which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB asset/ liability*. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in due to other governments.

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

Health Care Plan Description - EC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 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 2019, EC's surcharge obligation was \$4,905.

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The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. EC's contractually required contribution to SERS was \$6,584 for fiscal year 2019. Of this amount \$4,905 is reported as an accounts payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

4. OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflow/Inflow of Resources Related to OPEB

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. EC's proportion of the net OPEB asset/liability was based on EC's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.01228040%	0.01592845%	
Prior Measurement Date	0.01291374%	0.01628987%	
Change in Proportionate Share	-0.00063334%	-0.00036142%	
Proportionate Share of the Net			
OPEB Liability/(Asset)	\$ 340,692	\$ (255,954)	\$ 84,738
OPEB Expense	\$ 15,800	\$ (564,924)	\$ (549,124)

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At June 30, 2019, EC reported deferred outflow of resources and deferred inflow of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflow of Resources			
Differences between Expected and			
Actual Experience	\$ 5,561	\$ 29,896	\$ 35,457
Changes in Proportion and Differences between			
EC Contributions and Proportionate			
Share of Contributions	11,346	0	11,346
EC Contributions Subsequent to the			
Measurement Date	6,584	0	6,584
Total Deferred Outflow of Resources	<u>\$ 23,491</u>	<u>\$ 29,896</u>	<u>\$ 53,387</u>
Deferred Inflow of Resources			
Differences between Expected and			
Actual Experience	\$ 0	\$ 14,913	\$ 14,913
Net Difference between Projected and			
Actual Earnings on OPEB Plan Investments	510	29,240	29,750
Changes of Assumptions	30,610	348,757	379,367
Changes in Proportion and Differences between			
EC Contributions and Proportionate			
Share of Contributions	16,129	50,978	67,107
Total Deferred Inflow of Resources	<u>\$ 47,249</u>	<u>\$ 443,888</u>	<u>\$ 491,137</u>

\$6,584 reported as deferred outflow of resources related to OPEB resulting from EC contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2020	\$ (8,992)	\$ (74,760)	\$ (83,752)
2021	(7,820)	(74,760)	(82,580)
2022	(4,105)	(74,759)	(78,864)
2023	(3,887)	(68,117)	(72,004)
2024	(3,924)	(65,788)	(69,712)
Thereafter	(1,614)	(55,808)	(57,422)
	<u>\$ (30,342)</u>	<u>\$ (413,992)</u>	<u>\$ (444,334)</u>

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5. Actuarial Assumptions – SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of EC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

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	1% Decrease	Current Discount Rate	1% Increase
EC's Proportionate Share of the Net OPEB Liability	\$ 413,402	\$ 340,692	\$ 283,118
	1% Decrease	Current Trend Rate	1% Increase
EC's Proportionate Share of the Net OPEB Liability	\$ 274,876	\$ 340,692	\$ 427,844

6. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
- A Community School -
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB asset/liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Sensitivity of EC's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability/asset as of June 30, 2018, calculated using health care cost trend rates that are one

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
- A Community School -
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
EC's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (219,376)	\$ (255,954)	\$ (286,695)
	1% Decrease	Current Trend Rate	1% Increase
EC's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (284,960)	\$ (255,954)	\$ (226,496)

XIV. Contingencies

1. Grants

EC 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 EC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of EC at June 30, 2019.

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 did not perform such a review on EC for fiscal year 2019.

As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of EC.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

In addition, EC'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 EC from the State (See Note XV). As discussed above, FTE adjustments for fiscal year 2019 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2019 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, EC.

XV. Sponsorship and Management Agreements

EC entered into an agreement with the ECS 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, 2024. Sponsorship fees were calculated as 2.5% of the Fiscal Year 2018 Foundation payments received by EC, from the State of Ohio. The total amount due from EC for fiscal year 2019 was \$89,179 all of which was paid prior to June 30, 2019.

EC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2018. The agreement was for a period of one year, effective July 1, 2017. Management fees are calculated as 6.25% of the Fiscal Year 2019 Foundation payments received by EC from the State of Ohio plus a fixed fee of \$247,500. The total fee cannot exceed twice the fixed fee. The total amount due from EC for the fiscal year ending June 30, 2019 was \$477,037 all of which was paid prior to June 30, 2019.

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**Constellation Schools: Elyria Community
Lorain County, Ohio**
Required Supplementary Information
Schedule of the EC's Proportionate Share of the Net Pension Liability
Last Six Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)						
EC's Proportion of the Net Pension Liability	0.01236187%	0.01303718%	0.01218738%	0.01153520%	0.01032589%	0.01032589%
EC's Proportionate Share of the Net Pension Liability	\$ 707,987	\$ 778,942	\$ 892,004	\$ 658,210	\$ 522,587	\$ 614,048
EC's Covered Payroll (2)	\$ 402,504	\$ 421,207	\$ 363,943	\$ 238,657	\$ 229,062	\$ 149,964
EC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.90%	184.93%	245.09%	275.80%	228.14%	409.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)						
EC's Proportion of the Net Pension Liability	0.01592845%	0.01628987%	0.01728717%	0.01530740%	0.01427336%	0.01427336%
EC's Proportionate Share of the Net Pension Liability	\$ 3,502,308	\$ 3,869,694	\$ 5,786,537	\$ 4,230,518	\$ 3,471,775	\$ 4,135,556
EC's Covered Payroll (2)	\$ 1,810,536	\$ 1,790,821	\$ 1,768,914	\$ 1,452,214	\$ 1,354,538	\$ 1,348,462
EC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.44%	216.08%	327.12%	291.31%	256.31%	306.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

1) 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 through 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

See accompanying notes to the required supplementary information.

**Constellation Schools: Elyria Community
Lorain County, Ohio**
*Required Supplementary Information
Schedule of the EC's Contributions - Pension
Last Ten Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
School Employees Retirement System (SERS)				
Contractually Required Contribution	\$ 45,320	\$ 54,338	\$ 58,969	\$ 50,952
Contributions in Relation to the Contractually Required Contribution	<u>(45,320)</u>	<u>(54,338)</u>	<u>(58,969)</u>	<u>(50,952)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
EC's Covered Payroll (1)	\$ 335,704	\$ 402,504	\$ 421,207	\$ 363,943
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	\$ 252,031	\$ 253,475	\$ 250,715	\$ 247,648
Contributions in Relation to the Contractually Required Contribution	<u>(252,031)</u>	<u>(253,475)</u>	<u>(250,715)</u>	<u>(247,648)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
EC's Covered Payroll (1)	\$ 1,800,221	\$ 1,810,536	\$ 1,790,821	\$ 1,768,914
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

(1) 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 through 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

See accompanying notes to the required supplementary information.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 31,455	\$ 31,748	\$ 20,755	\$ 19,279	\$ 12,225	\$ 11,484
<u>(31,455)</u>	<u>(31,748)</u>	<u>(20,755)</u>	<u>(19,279)</u>	<u>(12,225)</u>	<u>(11,484)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 238,657	\$ 229,062	\$ 149,964	\$ 143,338	\$ 97,255	\$ 84,815
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
\$ 203,310	\$ 176,090	\$ 175,300	\$ 142,764	\$ 110,543	\$ 99,037
<u>(203,310)</u>	<u>(176,090)</u>	<u>(175,300)</u>	<u>(142,764)</u>	<u>(110,543)</u>	<u>(99,037)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,452,214	\$ 1,354,538	\$ 1,348,462	\$ 1,098,185	\$ 850,331	\$ 761,823
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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Constellation Schools: Elyria Community
Lorain County, Ohio
Required Supplementary Information
Schedule of the EC's Proportionate Share of the Net OPEB Liability/(Asset)
Last Three Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
School Employees Retirement System (SERS)			
EC's Proportion of the Net OPEB Liability	0.01228040%	0.01291374%	0.01203731%
EC's Proportionate Share of the Net OPEB Liability	\$ 340,692	\$ 346,571	\$ 343,108
EC's Covered Payroll	\$ 402,504	\$ 421,207	\$ 363,943
EC's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	84.64%	82.28%	94.28%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%
State Teachers Retirement System (STRS)			
EC's Proportion of the Net OPEB Liability/(Asset)	0.01592845%	0.01628987%	0.01728717%
EC's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (255,954)	\$ 635,571	\$ 924,522
EC's Covered Payroll	\$ 1,810,536	\$ 1,790,821	\$ 1,768,914
EC's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-14.14%	35.49%	52.26%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/(Asset)	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

Constellation Schools: Elyria Community
Lorain County, Ohio
Required Supplementary Information
Schedule of the EC's Contributions - OPEB
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 6,584	\$ 7,348	\$ 5,413	\$ 4,373
Contributions in Relation to the Contractually Required Contribution	<u>(6,584)</u>	<u>(7,348)</u>	<u>(5,413)</u>	<u>(4,373)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
EC's Covered Payroll (2)	\$ 335,704	\$ 402,504	\$ 421,207	\$ 363,943
OPEB Contributions as a Percentage of Covered Payroll (1)	1.96%	1.83%	1.29%	1.20%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
EC's Covered Payroll (2)	\$ 1,800,221	\$ 1,810,536	\$ 1,790,821	\$ 1,768,914
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

(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 through 2019 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

See accompanying notes to the required supplementary information.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 5,770	\$ 4,114	\$ 2,689	\$ 3,916	\$ 2,436	\$ 1,534
<u>(5,770)</u>	<u>(4,114)</u>	<u>(2,689)</u>	<u>(3,916)</u>	<u>(2,436)</u>	<u>(1,534)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 238,657	\$ 229,062	\$ 149,964	\$ 143,338	\$ 97,255	\$ 84,815
2.42%	1.80%	1.79%	2.73%	2.50%	1.81%
\$ 0	\$ 13,545	\$ 13,485	\$ 10,982	\$ 8,503	\$ 7,618
<u>0</u>	<u>(13,545)</u>	<u>(13,485)</u>	<u>(10,982)</u>	<u>(8,503)</u>	<u>(7,618)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,452,214	\$ 1,354,538	\$ 1,348,462	\$ 1,098,185	\$ 850,331	\$ 761,823
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
- A Community School -
Lorain County, Ohio

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to 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 was updated to 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 was updated to 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

For fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
- A Community School -
Lorain County, Ohio

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

Note 2 - Net OPEB Liability/Asset

Changes in Assumptions – SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare

Fiscal year 2018	7.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019	7.25 percent initially, decreasing to 4.75 percent

Medicare

Fiscal year 2018	5.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019	5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

Changes in Assumptions – STRS

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of - 5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
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Lorain County, Ohio

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

Changes in Benefit Terms – STRS

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. This was subsequently extended, see above paragraph.



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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Constellation Schools: Elyria Community
Lorain County
300 North Abbe Road
Elyria, OH 44035

5730 Broadview Rd
Parma, OH 44134

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ *Government Auditing Standards*, the financial statements of Constellation Schools: Elyria Community, Lorain County, Ohio (the School) as of and for the year ended June 30, 2019, 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 20, 2019.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School’s internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School’s internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School’s financial statements. *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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

November 20, 2019

OHIO AUDITOR OF STATE
KEITH FABER



CONSTELLATION SCHOOLS – ELYRIA COMMUNITY

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 26, 2019**