

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

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**



Rea & associates

www.reacpa.com

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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Board of Directors
Constellation Schools: Madison Community Elementary
2015 W 95th Street
Cleveland, Ohio 44102

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Madison Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Constellation Schools: Madison Community Elementary is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 28, 2021

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

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March 24, 2021

To the Board of Directors
Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
2015 W 95th St,
Cleveland, Ohio 44102

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Constellation Schools; Madison Community Elementary, Cuyahoga County, Ohio, (the "School") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Constellation Schools: Madison Community Elementary, Cuyahoga County, Ohio, as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note XVIII to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will continue to impact subsequent periods of the School. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of the School's Contributions-Pension, Schedule of the School's Proportionate Share of the Net OPEB Asset/Liability, and the Schedule of the School's Contributions - OPEB* as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2021 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Independence, Ohio

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(Unaudited)

The discussion and analysis of Constellation Schools: Madison Community Elementary (MDCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the financial performance of MDCE as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of MDCE.

Financial Highlights

Key financial highlights for 2020 include the following:

- In total, net position decreased \$211,582 which represents a 9.68% decrease from 2019. Changes in pension and OPEB liabilities and increases in operating revenues were offset by increases in expenses.
- Total assets and deferred outflow of resources decreased \$14,284, which represents a 0.29% decrease from 2019. This is due to decreases in, other current assets, bond reserve accounts and net OPEB assets, net capital assets and deferred outflow of resources partially offset by increases in cash.
- Liabilities and deferred inflow of resources increased \$197,301, which represents a 2.80% increase from 2019. Decreases in accounts payable, payroll payable, capital leases payable, and bond notes payable and pension and OPEB liability were offset by increases in PPP Loan payable and due to other governments.
- Operating revenues increased by \$79,907, which represents an 3.32% increase from 2019. This increase is a result of increases in foundation and poverty based assistance and in other operating funds.
- Expenses increased by \$284,926 which represents a 9.69% increase from 2019. Operating expense decreases due to staff reductions, reductions in purchased services, materials and supplies, depreciation, and capital outlay were offset by the change in net pension and OPEB liability and an increase in other expenses.
- Non-operating revenues decreased by \$63,540 which represents a 10.73% decrease from 2019. This decrease is due to a decrease in federal grant programs, and a decrease in interest income.

Using this Financial Report

This report consists of three parts, 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: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(Unaudited)

Statement of Net Position

The Statement of Net Position looks at how well MDCE has performed financially through June 30, 2020. 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, 2020 and 2019 for MDCE.

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Assets and Deferred				
Outflow of Resources				
Cash	\$1,270,648	\$933,649	\$336,999	36.09%
Other Current Assets	195,683	247,242	(51,559)	-20.85%
Non-Current Assets	341,940	345,576	(3,636)	-1.05%
Net OPEB Assets	167,148	168,003	(855)	-0.51%
Capital Assets, Net	2,043,228	2,080,968	(37,740)	-1.81%
Deferred Outflow of Resources	834,603	1,092,096	(257,493)	-23.58%
Total Assets and Deferred				
Outflow of Resources	<u>4,853,250</u>	<u>4,867,534</u>	<u>(14,284)</u>	<u>-0.29%</u>
Liabilities and Deferred				
Inflow of Resources				
Current Liabilities	480,016	371,532	108,484	29.20%
Long-Term Liabilities	6,200,365	6,105,082	95,283	1.56%
Deferred Inflow of Resources	569,916	576,386	(6,470)	-1.12%
Total Liabilities and Deferred				
Inflow of Resources	<u>7,250,297</u>	<u>7,053,000</u>	<u>197,297</u>	<u>2.80%</u>
Net Position				
Net Investment in Capital Assets	(408,999)	(405,079)	(3,920)	0.97%
Net Restricted for Debt Purposes	215,583	213,211	2,372	1.11%
Unrestricted	(2,203,631)	(1,993,598)	(210,033)	-10.54%
Total Net Position	<u><u>(\$2,397,047)</u></u>	<u><u>(\$2,185,466)</u></u>	<u><u>(\$211,581)</u></u>	<u><u>-9.68%</u></u>

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(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, 2020. The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for MDCE for fiscal years ended June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$2,240,372	\$2,200,705	\$39,667	1.80%
Casino Tax Distribution	13,405	13,837	(432)	-3.12%
Other Operating Revenues	231,137	190,465	40,672	21.35%
Total Operating Revenues	<u>2,484,914</u>	<u>2,405,007</u>	<u>79,907</u>	<u>3.32%</u>
Interest Income	1,939	4,787	(2,848)	-59.49%
Federal and State Grants	526,835	587,527	(60,692)	-10.33%
Total Non-Operating Revenues	<u>528,774</u>	<u>592,314</u>	<u>(63,540)</u>	<u>-10.73%</u>
Total Revenues	<u>3,013,688</u>	<u>2,997,321</u>	<u>16,367</u>	<u>0.55%</u>
Expenses				
Salaries	1,365,992	1,444,471	(78,479)	-5.43%
Fringe Benefits	446,387	454,501	(8,114)	-1.79%
Change in Net Pension and OPEB Liability/Asset	137,684	(266,111)	403,795	-151.74%
Purchased Services	804,987	833,366	(28,379)	-3.41%
Materials and Supplies	87,877	112,293	(24,416)	-21.74%
Capital Outlay	3,916	25,023	(21,107)	-84.35%
Depreciation	84,262	86,000	(1,738)	-2.02%
Other Expenses	294,164	250,800	43,364	17.29%
Total Expenses	<u>3,225,269</u>	<u>2,940,343</u>	<u>284,926</u>	<u>9.69%</u>
Changes in Net Position	<u>(211,581)</u>	<u>56,978</u>	<u>(268,559)</u>	<u>-471.34%</u>
Net Position: Beginning of the Year	<u>(2,185,466)</u>	<u>(2,242,444)</u>	<u>56,978</u>	<u>2.54%</u>
Net Position: End of Year	<u>(\$2,397,047)</u>	<u>(\$2,185,466)</u>	<u>(\$211,581)</u>	<u>-9.68%</u>

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(Unaudited)

Overall, revenues increased by \$16,367 from 2019 to 2020. The most significant changes in revenues are increases of \$60,073 in Student Wellness and Success funds and increases of \$39,667 in State Foundation and Poverty Based Assistance funds due to enrollment increases, a decrease in Casino Tax Distribution totaling \$432, offsetting decreases in Federal and State Grant Funds totaling \$120,765 and interest income reduction of \$2,848. Other revenues increased mostly due to increases in services to other schools.

Total expenses increased \$284,926 from 2019 to 2020. Salaries and Fringe Benefits decreased \$86,593 due to decreased staffing offset by regular annual increases. A change in the Change in Net Pension and OPEB Liability expense totaling \$403,795, is due to recognition of pension and other post-employment benefits liabilities per GASB 68 and 75. Purchased Services and materials and supplies decreased \$28,379 and \$24,416 respectively due to changes brought on by switching to remote learning due to COVID in March, 2020. Capital Outlay decreased \$21,107 due to reduced purchases not capitalized and Depreciation decreased \$1,738 due to decreased classroom technology becoming fully depreciated. Other Expenses increased \$43,364.

Capital Assets

As of June 30, 2020, MDCE had \$2,043,228 invested in land, building, building improvements, technology and software, and furniture and equipment, net of depreciation. This is a \$37,740 decrease from June 30, 2019. The following schedule provides a summary of Capital Assets as of June 30, 2020 and 2019 for MDCE.

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$80,000	\$80,000	\$0	0.00%
Building	495,000	513,000	(18,000)	-3.51%
Building Improvements	1,427,473	1,439,255	(11,782)	-0.82%
Technology and Software	481	1,059	(578)	-54.58%
Furniture and Equipment	40,274	47,654	(7,380)	-15.49%
Net Capital Assets	<u>\$2,043,228</u>	<u>\$2,080,968</u>	<u>(\$37,740)</u>	<u>-1.81%</u>

For more information on capital assets see the Notes to the Financial Statements (Note IV).

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(Unaudited)

Bond Debt Service

On April 10, 2014 MDCE shared in the closing of a multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, along with escrow and reserve deposits from a 2008 bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due. The CCCPA bond refinance allowed MDCE to acquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at MDCE. MDCE provided a mortgage on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, varies from a rate of 5.00% per annum to 7.75%. The outstanding principal balance, net of unamortized original bond discount, as of June 30, 2020 is \$2,935,026. For more information on debt service see the Notes to the Financial Statements.

Equipment Financing

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

In May of 2020 MDCE converted all remaining obligations under all leases with Winthrop (now known as TCF) to a financed purchase with a term of 27 months and no interest due. MDCE has title to all equipment. Equipment serves as collateral during the term. In the event of default, TCF may declare all obligations due and payable. The outstanding debt as of June 30, 2020 is \$37,716.

PPP Loans

During the fiscal year 2020, the school applied for and received a Paycheck Protection Program loan totaling \$374,000. Under the terms of the program, the school applied for forgiveness of the loan in fiscal year 2021.

Net Pension and OPEB Liabilities

The net pension and OPEB liability (NPL) is the largest single liability reported by MDCE at June 30, 2020 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 other pension and postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of MDCE's actual financial condition by adding deferred inflow related to pension and OPEB, the net pension and OPEB liability to the reported net position and subtracting deferred outflows related to pension and net OPEB asset.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(Unaudited)

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 MDCE'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, MDCE 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 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

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2020

(Unaudited)

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, MDCE'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, respectively, not accounted for as deferred inflows/outflows.

Current Financial Issues

Constellation Schools: Madison Community Elementary opened in the fall of 2004. The school has grown from 35 students, three teaching staff members and expenses of \$387,165 to a total of 253 students, 22 teaching staff members and expenses of \$3,225,269. MDCE exercised its' purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima. Title to the property was transferred to MDCE during 2014 as part of the bond refinancing with the CCCPA.

The Board of Directors, school management and school staff continue to work diligently to ensure that MDCE maintains the highest level of educational services and financial integrity that we have always provided. Our goal continues to be providing a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for MDCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Caroline Zito, Treasurer by mail at 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.

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**Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2020**

Assets:

Current Assets:

Cash	\$1,270,648
Accounts Receivable	19,447
Prepaid Expenses	19,677
Due from Other Governments	20,597
Escrow Accounts	135,962
<i>Total Current Assets</i>	1,466,331

Non-Current Assets:

Security Deposit	27,338
Bond Reserve Accounts	314,602
Net OPEB Assets	167,148
Non-Depreciable Capital Assets	80,000
Capital Assets (Net of Accumulated Depreciation)	1,963,228
<i>Total Non-Current Assets</i>	2,552,316
<i>Total Assets</i>	4,018,647

Deferred Outflow of Resources:

Unamortized Deferred Charges on Bond Refinancing	247,818
Pension and OPEB (STRS & SERS)	586,785
<i>Total Deferred Outflow of Resources</i>	834,603

<i>Total Assets and Deferred Outflow of Resources</i>	4,853,249
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Liabilities:

Current Liabilities:

Accounts Payable	12,282
Interest Payable	97,410
Payroll Payable	128,695
Unearned Revenue	75
Due to Other Governments	24,855
Note Payable	18,858
PPP Loan Payable	143,561
Capital Lease Bond Notes Payable	54,280
<i>Total Current Liabilities</i>	480,016

Long Term Liabilities:

Note Payable	18,858
PPP Loan Payable	230,439
Capital Lease Bond Notes Payable	2,880,746
Net Pension and OPEB Liability	3,070,322
<i>Total Long Term Liabilities</i>	6,200,365
<i>Total Liabilities</i>	6,680,381

Deferred Inflow of Resources:

Pension and OPEB (STRS & SERS)	569,916
<i>Total Deferred Inflow of Resources</i>	569,916

<i>Total Liabilities and Deferred Inflow of Resources</i>	7,250,297
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Net Position:

Net Investment in Capital Assets	(408,999)
Net Restricted for Debt Purposes	215,583
Unrestricted	(2,203,631)
<i>Total Net Position</i>	(2,397,047)

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

**Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2020**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$2,240,372
Casino Tax Distribution	13,405
Other Operating Revenues	231,137
<i>Total Operating Revenues</i>	<u>2,484,914</u>

Operating Expenses:

Salaries	1,365,992
Fringe Benefits	446,387
Change in Net Pension and OPEB Liability/Asset	137,684
Purchased Services	804,987
Materials and Supplies	87,877
Capital Outlay	3,916
Depreciation	84,262
Other Operating Expenses	83,917
<i>Total Operating Expenses</i>	<u>3,015,022</u>

Operating Loss	<u>(530,108)</u>
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Non-Operating Revenues & Expenses:

Interest Income	1,939
Interest Expense	(210,247)
Federal and State Grants	526,835
<i>Total Non-Operating Revenues & Expenses</i>	<u>318,527</u>

Change in Net Position	<u>(211,581)</u>
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Net Position at Beginning of the Year	<u>(2,185,466)</u>
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Net Position at End of Year	<u><u>(\$2,397,047)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$2,253,071
Cash Payments to Suppliers for Goods and Services	(1,487,603)
Cash Payments to Employees for Services	(1,371,875)
Other Operating Revenues	221,023
Net Cash Used for Operating Activities	<u>(385,384)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	601,112
PPP Loan Payable	374,000
Net Cash Provided by Noncapital Financing Activities	<u>975,112</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(46,522)
Note Payable	42,430
Note Principal	(4,714)
Increase in Escrow Funds	90
Increase in Bond Reserve Accounts	1,582
Bond Principal Payment	(51,207)
Bond Interest Payments	(197,259)
Equipment Lease Principal Payments	(1,117)
Equipment Lease Interest Payments	(5)
Decrease in Security Deposits	2,054
Net Cash Used for Capital and Related Financing Activities	<u>(254,668)</u>

Cash Flows from Investing Activities:

Interest Revenue	1,939
Net Cash Provided by Investing Activities	<u>1,939</u>

Net Increase in Cash	336,999
Cash at Beginning of Year	<u>933,649</u>

Cash at End of Year	<u><u>\$1,270,648</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.
(continued)

Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020
(Continued)

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

Operating Loss	<u>\$ (530,108)</u>
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Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:

Depreciation	84,262
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Changes in Assets, Liabilities, Deferred Inflows of Resources
and Deferred Outflows of Resources:

(Increase) in Accounts Receivable	(7,197)
(Increase) in Prepaid Expenses	(18,273)
Decrease in Due from Other Governments	2,658
Decrease in Net OPEB Assets	855
Decrease in Deferred Outflows - Pension and OPEB	243,726
(Decrease) in Accounts Payable	(54,350)
(Decrease) in Payroll Payable	(5,883)
Increase in Due to Other Governments	8,743
(Decrease) in Unearned Revenue	(2,920)
(Decrease) in Net Pension and OPEB Liability	(100,427)
(Decrease) in Deferred Inflows - Pension and OPEB	<u>(6,470)</u>

Total Adjustments	<u>144,724</u>
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Net Cash Used for Operating Activities	<u><u>(\$385,384)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

I. Description of the School and Reporting Entity

Constellation Schools: Madison Community Elementary (MDCE) is a nonprofit corporation established December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On March 28, 2006, MDCE received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of MDCE. MDCE, which is part of Ohio's education program, is independent of any school district. MDCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MDCE.

MDCE was approved for operation as Madison Community School on January 20, 2004 under a contract between the Governing Authority of MDCE and Lucas County Educational Service Center (LCESC) as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2021. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. For further discussion of the sponsor services see Note XV.

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

MDCE operates under a five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls MDCE's instructional facility staffed by 22 certificated full time teaching personnel and 7 support staff who provide services to 253 students. During 2020, the board members for MDCE also serve as the board for Constellation Schools: Westpark Community Elementary, Constellation Schools: Puritas Community Elementary and Constellation Schools: Stockyard Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of MDCE have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of MDCE's accounting policies are described below.

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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, all liabilities and deferred inflow of resources are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. MDCE prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which MDCE receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which MDCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to MDCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2020, MDCE implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 postpones the effective dates of certain provisions in the statements that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The following statements are postponed by one year:

- Statement No. 84, *Fiduciary Activities*

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- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*

Certain provisions in the following statements are postponed by one year:

- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The following statement is postponed by 18 months:

- Statement No. 87, *Leases*

For the fiscal year ended June 30, 2020, MDCE also implemented paragraphs 4 and 5 of Governmental Accounting Standards Board Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Paragraph 4 increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a government board typically would perform and paragraph 5 mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. The implementation of paragraphs 4 and 5 of this Statement did not have an effect on the financial statements of MDCE.

For the fiscal year ended June 30, 2020, MDCE has early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and GASB Statement No. 92 *Omnibus 2020*.

GASB Statement No. 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The implementation of GASB Statement No. 89 did not have an effect on the financial statements of MDCE.

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GASB Statement No. 92 enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of GASB Statement No. 92 did not have an effect on the financial statements of MDCE.

4. Cash

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

5. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between MDCE and its Sponsor. The contract between MDCE and its Sponsor does not require MDCE to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

6. Due From Other Governments and Accounts Receivable

Monies due to MDCE for the year ended June 30, 2020 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

7. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated 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. 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:

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

8. Intergovernmental Revenues

MDCE 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. MDCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2020 school year totaled \$2,780,611.

9. Private Grants and Contributions

MDCE receives grants and contributions from private sources to support the school's programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. MDCE did not receive private grants and contributions during the 2020 school year.

10. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, MDCE does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum of one hundred twenty days. MDCE will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

11. Pensions & Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liability, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the pension and OPEB plans and additions to/deductions from their fiduciary net position have been

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determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

12. 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.

13. Use of Estimates

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

14. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The unearned revenue for MDCE 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 MDCE that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflow of resources related to pension and OPEB is described in Note XI and Note XII.

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

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When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. Deferred charges on refunding result from the difference in the carrying value of refunded debt to its reacquisition price. This amount is deferred and amortized over the shorter period of the life of the refunded debt or of the refunding debt.

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

MDCE 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, 2020, the carrying amount of MDCE's deposits totaled \$1,270,648 and its bank balance was \$1,275,132. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2020, \$1,025,132, of the bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of MDCE and the Cleveland Cuyahoga County Port Authority totaled \$450,564 at fiscal year end June 30, 2020. The escrow accounts are invested in the US Treasury and are 100% backed by the full faith and credit of the United States government. Reserve accounts are invested in U.S. Bank Open Commercial Paper instruments.

MDCE 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

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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.

IV. Capital Assets

A summary of capital assets at June 30, 2020 follows:

	Balance 7/1/2019	Additions	Deletions	Balance 6/30/2020
Capital Assets Not Being Depreciated:				
Land	\$80,000	\$0	\$0	\$80,000
Construction in Process	0	0	0	0
Total Capital Assets Not Being Depreciated:	<u>80,000</u>	<u>0</u>	<u>0</u>	<u>80,000</u>
Capital Assets Being Depreciated:				
Building	720,000	0	0	720,000
Building Improvements	1,875,934	46,522	0	1,922,456
Technology and Software	105,965	0	0	105,965
Furniture and Equipment	147,684	0	0	147,684
Total Capital Assets Being Depreciated	<u>2,849,583</u>	<u>46,522</u>	<u>0</u>	<u>2,896,105</u>
Less Accumulated Depreciation:				
Building	(207,000)	(18,000)	0	(225,000)
Building Improvements	(436,679)	(58,304)	0	(494,983)
Technology and Software	(104,906)	(578)	0	(105,484)
Furniture and Equipment	(100,030)	(7,380)	0	(107,410)
Total Accumulated Depreciation	<u>(848,615)</u>	<u>(84,262)</u>	<u>0</u>	<u>(932,878)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>2,000,968</u>	<u>(37,740)</u>	<u>0</u>	<u>1,963,228</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$2,080,968</u>	<u>(\$37,740)</u>	<u>\$0</u>	<u>\$2,043,228</u>

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V. Purchased Services

Purchased Services include the following:

Instruction	\$109,275
Pupil Support Services	28,926
Staff Development & Support	86,734
Administrative	404,945
Occupancy Costs	105,446
Food Services	69,171
Student Activities	490
Total Purchased Services	<u><u>\$804,987</u></u>

VI. Capital Equipment Lease Payable

During fiscal year 2017, MDCE entered into a forty-eight-month lease for technology equipment with Winthrop Leasing. This lease meets the criteria of capital leases as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee. Assets of technology equipment totaling \$2,310 have been capitalized during 2017. 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 2020 totaled \$1,117 and interest paid totaled \$5. During 2020 the leases were converted to a financed purchase. See Note VII.

VII. Note Payable

In May of 2020 MDCE converted all remaining obligations under all leases with Winthrop (now known as TCF) to a financed purchase with a term of 27 months and no interest due. PC has title to all equipment. Equipment serves as collateral during the term. In the event of default, TCF may declare all obligations due and payable.

	Balance 7/1/19	Additions	Reductions	Balance 6/30/20	Due In One Year
Financed Purchase	\$0	\$42,430	(\$4,714)	\$37,716	\$18,858
TOTAL	<u><u>\$0</u></u>	<u><u>\$42,430</u></u>	<u><u>(\$4,71)</u></u>	<u><u>\$37,716</u></u>	<u><u>\$18,858</u></u>

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<u>Year</u>	<u>Payment</u>	<u>Total</u>
2021	18,858	18,858
2022	<u>18,858</u>	<u>18,858</u>
Total	<u><u>\$37,716</u></u>	<u><u>\$37,716</u></u>

VIII. School Building Purchase

In order to finance a multi-million dollar expansion project during fiscal year 2008 the building and land located at West 98th and Madison in Cleveland was purchased by The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. MDCE leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was turned over to the ownership of MDCE (See Note IX). The original purchase price and building improvements under the capitalized lease continue to be recognized as capital assets and are being depreciated over their remaining useful life.

IX. Capital Lease Bond Notes Payable

On April 10, 2014 MDCE closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). Underwriters' discounts totaling \$538,825 and original bond discounts of \$163,934 were deducted from the bond proceeds at issuance. A portion of the proceeds, along with escrow and reserve deposits from a prior bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due (See Note IX). In addition, \$4,953,849 of the CCCPA bonds is financing multi-million dollar building acquisition, renovation and expansion projects to meet increasing demand for enrollment for the participating schools.

The properties are managed through annual lease and sub-lease arrangements. MDCE and the CCCPA secured mortgages on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, is at the rate of 5.00% per annum for the bonds maturing between 2015 and 2017 (Series B); 5.75% for the bonds maturing between 2018 and 2024 (Series A); 6.50% for the bonds maturing between 2025 and 2034 (Series A); and 7.75% for the bonds maturing between 2035 and 2044 (Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2020 is \$2,935,026 and interest payable due July 1,

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2020 is \$97,410. Interest paid during 2020 totaled \$197,259. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	<u>7/1/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/20</u>	<u>Due In One Year</u>
Series A	\$ 2,998,695	\$0	\$ (51,207)	\$ 2,947,488	\$ 54,280
Bond Discount	(13,155)	0	693	(12,462)	0
TOTALS	<u><u>\$ 2,985,540</u></u>	<u><u>\$0</u></u>	<u><u>\$ (50,514)</u></u>	<u><u>\$ 2,935,026</u></u>	<u><u>\$ 54,280</u></u>

These lease obligations meet the criteria of a capital lease as defined by accounting standards and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the bond issuance continue to be recognized as capital assets and are being depreciated over their remaining useful life. MDCE's share of bond issuance costs totaling \$158,879 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by \$333,866. Loss on refinancing is reported as "Unamortized Deferred Charges on Bond Refinancing" and is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. The original bond discount, which totaled \$16,789 for MDCE, is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. As of June 30, 2020 the unamortized balances for the cost to refinance and the bond discount are \$247,818 and \$12,462 respectively.

The Bond Indenture requires MDCE to meet certain covenants. As of June 30, 2020, MDCE is not in compliance with the debt service coverage ratio and the timely filing of the audited financial statements, however they were in compliance with the days cash on hand ratio. The buildings are collateral for the bonds. The Bond Indenture also requires all of the participating schools to meet certain covenants. As of June 30, 2020 four of the schools did not meet the required debt service coverage ratio (DSCR). Unless waived by the owners of a majority of the principal amount of bonds outstanding, the school will be required to hire a management consultant to make recommendations with respect to increasing revenues, decreasing expenses or other financial matters of the school which are relevant to increasing the DSCR to at least 1.00 or 1.10.

As part of the agreements for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for renovation and financing activities have been paid from these accounts through June 30, 2020. Lease payments were made by MDCE to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into a Debt Service Reserve Account to meet future debt service needs. Lease payments made during 2020 to fund interest, reserves and bond expenses totaled \$252,725. The balances of escrow and reserve accounts as of June 30, 2020 are as follows:

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Bond Debt Service Account	\$124,797
Expense Fund	11,165
Total Bond Escrow Accounts	<u>\$135,962</u>
Debt Service Reserve	\$252,725
Operating Reserve	61,878
Total Bond Reserve Accounts	<u>\$314,603</u>

The assets refinanced through the capital lease as of June 30, 2020 are as follows:

Land	\$80,000
Building	720,000
Building Improvements	<u>1,308,412</u>
Sub-Total	2,108,412
Accumulated Depreciation	<u>(593,798)</u>
Net Book Value	<u>\$1,514,614</u>

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

Year	Principal	Interest	Total
2021	\$54,280	\$194,260	\$248,539
2022	57,864	191,139	249,003
2023	60,937	187,811	248,748
2024	64,521	184,308	248,829
2025	68,106	180,598	248,703
2026 - 2030	416,315	830,228	1,246,543
2031 - 2035	573,009	675,820	1,248,829
2036 - 2040	795,248	457,466	1,252,714
2041 - 2044	<u>857,208</u>	<u>149,424</u>	<u>1,006,633</u>
Total	<u>\$2,947,488</u>	<u>\$3,051,053</u>	<u>\$5,998,541</u>

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X. Refunded Capital Lease Bond Notes Payable

On April 10, 2014 MDCE closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, \$22,004,213, along with escrow and reserve deposits from a prior bond issue, \$5,245,493, were used to advance refund the entire Constellation Schools Series 2008 Bonds issued by The Industrial Development Authority of the County of Pima (See Note IX). The refunding portion of the issue, along with the escrow and reserve accounts from the 2008 issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the bonds when they come due.

XI. Risk Management

1. Property and Liability Insurance

MDCE is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2020, MDCE contracted with Traveler's Property Casualty Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile insurance.

General property and liability is covered at \$10,000,000 single occurrence limit and \$11,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing, Cyber Liability and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

2. Workers' Compensation

MDCE makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. There have been six claims filed by MDCE employees with the Ohio Workers' Compensation System between January 1, 2016 and June 30, 2020. The total payments made for these claims have been \$26,214. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MDCE as of June 30, 2020.

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3. Employee Medical, Dental, Vision and Life Benefits

MDCE provides medical, dental, vision and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by MDCE for the fiscal year is \$211,004.

XII. Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

1. Net Pension Liability/Net OPEB Liability (Asset)

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/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 net pension/OPEB liability (asset) represents the MDCE's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension/OPEB liability (asset) 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 the MDCE's obligation for this liability to annually required payments. The MDCE cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the MDCE does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 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 (assets) 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/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

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

The remainder of this note includes the required pension disclosures. See Note XIII for the required OPEB disclosures.

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

Plan Description – MDCE 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, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the MDCE is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be

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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, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. SERS did not allocate employer contributions to the Health Care Fund for fiscal year 2020.

The MDCE's contractually required contribution to SERS was \$43,163 for fiscal year 2020.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Effective August 1, 2017 – July 1, 2019, any member could retire with reduced benefits who had (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. Effective August 1, 2019 – July 1, 2021, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 28 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 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. 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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2020, plan members were required to contribute 14 percent of their annual covered salary. The MDCE was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The MDCE's contractually required contribution to STRS was \$159,333 for fiscal year 2020.

4. Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The MDCE's proportion of the net pension liability was based on the employer's

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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:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00978651%	0.01009200%	
Prior Measurement Date	0.01028667%	0.01045509%	
Change in Proportionate Share	-0.00050016%	-0.00036309%	
Proportionate Share of the Net			
Pension Liability	\$ 585,544	\$ 2,231,785	\$ 2,817,329
Pension Expense	\$ 86,366	\$ 303,590	\$ 389,956

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

At June 30, 2020 the MDCE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 14,847	\$ 18,170	\$ 33,017
Changes of Assumptions	0	262,167	262,167
Changes in Proportion and Differences between MDCE Contributions and Proportionate Share of Contributions	3,189	37,318	40,507
MDCE Contributions Subsequent to the Measurement Date	43,163	159,333	202,496
Total Deferred Outflows of Resources	<u>\$ 61,199</u>	<u>\$ 476,988</u>	<u>\$ 538,187</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 9,662	\$ 9,662
Net Difference between Projected and Actual Earnings on Pension Plan Investments	7,516	109,076	116,592
Changes in Proportion and Differences between MDCE Contributions and Proportionate Share of Contributions	21,965	125,101	147,066
Total Deferred Inflows of Resources	<u>\$ 29,481</u>	<u>\$ 243,839</u>	<u>\$ 273,320</u>

\$202,496 reported as deferred outflows of resources related to pension resulting from MDCE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2021	\$ 4,983	\$ 135,893	\$ 140,876
2022	(20,190)	(12,708)	(32,898)
2023	(499)	(48,230)	(48,729)
2024	4,261	(1,139)	3,122
	<u>\$ (11,445)</u>	<u>\$ 73,816</u>	<u>\$ 62,371</u>

5. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment 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.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Future benefits for all current plan members were projected through 2035.

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, 2019, are presented below:

Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
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
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 most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is 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 Total pension liability was calculated using the discount rate of 7.50 percent. The discount rate determination does not use a municipal bond rate. 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 25-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the MDCE's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the MDCE's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the MDCE'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
MDCE's Proportionate Share of the Net Pension Liability	\$ 820,557	\$ 585,544	\$ 388,457

6. Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, are presented below:

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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
Discount Rate of Return	7.45 percent
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

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.

The actuarial assumptions used in the July 1, 2019 valuation, were based on 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.

**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, 2019. 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'

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fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2019.

Sensitivity of the MDCE's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table represents the MDCE's proportionate share of the net pension liability as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the MDCE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption:

	1% Decrease	Current Discount Rate	1% Increase
MDCE's Proportionate Share of the Net Pension Liability	\$ 3,261,505	\$ 2,231,785	\$ 1,360,074

XIII. Defined Benefit OPEB Plans

See Note XII for a description of the net OPEB liability (asset).

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

Health Care Plan Description - The MDCE 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

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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 the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions 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 2020, this amount was \$19,600. 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 2020, the MDCE's surcharge obligation was \$3,750, which is reported as *due to other governments*.

2. 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, 2021. 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, 2020, STRS did not allocate any employer contributions to post-employment health care.

3. Net OPEB Liability (Asset), OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The MDCE's proportion of the net OPEB liability (asset) was based on the MDCE's share of contributions to the respective retirement systems relative to the contributions of all

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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	0.01006019%	0.01009200%	
Prior Measurement Date	0.01019270%	0.01045509%	
Change in Proportionate Share	<u>-0.00013251%</u>	<u>-0.00036309%</u>	
Proportionate Share of the Net			
OPEB Liability (Asset)	\$ 252,993	\$ (167,148)	
OPEB Expense	\$ 9,377	\$ (55,403)	\$ (46,026)

At June 30, 2020, the MDCE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 3,714	\$ 15,154	\$ 18,868
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	607	0	607
Changes of Assumptions	18,478	3,513	21,991
Changes in Proportion and Differences between MDCE Contributions and Proportionate Share of Contributions	3,382	0	3,382
MDCE Contributions Subsequent to the Measurement Date	<u>3,750</u>	<u>0</u>	<u>3,750</u>
Total Deferred Outflows of Resources	<u>\$ 29,931</u>	<u>\$ 18,667</u>	<u>\$ 48,598</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 55,581	\$ 8,503	\$ 64,084
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	0	10,499	10,499
Changes of Assumptions	14,176	183,258	197,434
Changes in Proportion and Differences between MDCE Contributions and Proportionate Share of Contributions	4,946	19,633	24,579
Total Deferred Inflows of Resources	<u>\$ 74,703</u>	<u>\$ 221,893</u>	<u>\$ 296,596</u>

\$3,750 reported as deferred outflows of resources related to OPEB resulting from MDCE contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
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NOTES TO THE FINANCIAL STATEMENTS
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Fiscal Year Ending June 30:	SERS	STRS	Total
2021	\$ (13,702)	\$ (44,128)	\$ (57,830)
2022	(7,892)	(44,130)	(52,022)
2023	(7,713)	(39,921)	(47,634)
2024	(7,741)	(38,445)	(46,186)
2025	(7,790)	(36,734)	(44,524)
Thereafter	(3,684)	132	(3,552)
	<u>\$ (48,522)</u>	<u>\$ (203,226)</u>	<u>\$ (251,748)</u>

4. Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment 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 OPEB liability in the latest actuarial valuation date of June 30, 2019, are presented below:

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Inflation	3.00 percent
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	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate	
Measurement Date	3.22 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Pre-Medicare	7.00 percent - 4.75 percent
Medicare	5.25 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 most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several 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 log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) 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 time frame. 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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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the plan at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and no 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, 2029. However, since SERS' actuaries indicate the fiduciary net position is projected to be depleted at a future measurement date, the single equivalent interest rate is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e., municipal bond rate).

Sensitivity of the MDCE'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 (2.22 percent) and higher (4.22 percent) than the current discount rate (3.22 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.00 percent decreasing to 3.75 percent) and higher (8.00 percent decreasing to 5.75 percent) than the current rate.

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	1% Decrease	Current Discount Rate	1% Increase								
MDCE's Proportionate Share of the Net OPEB Liability	\$ 307,085	\$ 252,993	\$ 209,983								
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%; text-align: center; border-bottom: 1px solid black;">1% Decrease</th> <th style="width: 20%; text-align: center; border-bottom: 1px solid black;">Current Trend Rate</th> <th style="width: 50%; text-align: center; border-bottom: 1px solid black;">1% Increase</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">MDCE's Proportionate Share of the Net OPEB Liability</td> <td style="text-align: right;">\$ 202,698</td> <td style="text-align: right;">\$ 252,993</td> <td style="text-align: right;">\$ 319,721</td> </tr> </tbody> </table>					1% Decrease	Current Trend Rate	1% Increase	MDCE's Proportionate Share of the Net OPEB Liability	\$ 202,698	\$ 252,993	\$ 319,721
	1% Decrease	Current Trend Rate	1% Increase								
MDCE's Proportionate Share of the Net OPEB Liability	\$ 202,698	\$ 252,993	\$ 319,721								

5. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2019, 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	
Payroll Increases	3.00 percent	
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	
Discount Rate of Return	7.45 percent	
Health Care Cost Trend Rates		
Medical	<u>Initial</u>	<u>Ultimate</u>
Pre-Medicare	5.87 percent	4.00 percent
Medicare	4.93 percent	4.00 percent
Prescription Drug		
Pre-Medicare	7.73 percent	4.00 percent
Medicare	9.62 percent	4.00 percent

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.

The actuarial assumptions used in the June 30, 2019 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

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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 liability was 7.45 percent as of June 30, 2019. 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. 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, 2019.

Sensitivity of the MDCE's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset 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 asset as of June 30, 2019, calculated using health care cost trend rates that are one percentage point lower and one percentage point higher than the current health care cost trend rates.

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	1% Decrease	Current Discount Rate	1% Increase
MDCE's Proportionate Share of the Net OPEB Liability (Asset)	\$ (142,627)	\$ (167,148)	\$ (187,764)
	1% Decrease	Current Trend Rate	1% Increase
MDCE's Proportionate Share of the Net OPEB Liability (Asset)	\$ (189,538)	\$ (167,148)	\$ (139,725)

XIII. Contingencies

1. Grants

MDCE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of MDCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MDCE at June 30, 2020.

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 perform a review on MDCE for fiscal year 2019.

As of the date of this report, all ODE adjustments for fiscal year 2020 are finalized.

In addition, MDCE's contracts with their Sponsor, ESC of Lake Erie West and their management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by the school from the State (See Note XV). As discussed above, all FTE adjustments for fiscal year 2020 are finalized. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

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XIV. Sponsorship and Management Agreements

MDCE entered into an agreement with the ESC of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2021. Sponsorship fees are calculated as 2.50% of the Fiscal Year 2020 Foundation payments received by MDCE, from the State of Ohio. The total amount due from MDCE for fiscal year 2020 was \$54,303, all of which was paid prior to June 30, 2020.

MDCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2020. The agreement was for a period of one year, effective July 1, 2019. Management fees are calculated as 6.25% of the Fiscal Year 2020 Foundation payment received by MDCE from the State of Ohio plus a fixed fee of \$192,500. The total fee cannot exceed twice the fixed fee. The total amount due from MDCE for the fiscal year ending June 30, 2020 was \$332,202 all of which was paid prior to June 30, 2020.

XV. Net Restricted for Debt Purposes

Net restricted for debt purposes represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Project Fund, which is included in Escrow Accounts, is being held for construction purposes and was partially liquidated during the fiscal year. The Bond Debt Service Account and the Expense Fund, which are included in Escrow Accounts, along with the Debt Service Reserve and Operating Reserve Accounts, which are being held for bond financing reserve requirements, will continue to be funded until January 1, 2044.

XVI. Payroll Protection Program Loan

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed on March 27, 2020 in response to COVID-19. The Paycheck Protection Program (PPP) was formed as part of the CARES Act. The PPP allows for certain companies to apply for aid and through forgivable loans. The school entered into a note payable agreement with a bank under PPP. The unsecured note has a principal amount of \$374,000 maturing on 05/04/2022. Total amount of the loans due within one year are \$143,561. Monthly payments of \$21,054 start on 12/15/2020.

XVII. Subsequent Event/COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures have impacted the current period and will continue to impact subsequent periods of MDCE. MDCE's investments of the pension and other employee benefit plan in which MDCE participates have incurred a significant fluctuation in fair value, consistent with the general fluctuation in financial markets. However, because the values of individual investments fluctuate with market

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conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, due to the dynamic environment and changes in fiscal policies, the exact impact on MDCE's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be reasonably estimated.

The school has applied for a waiver and forgiveness of the PPP loan. At the time of this report a decision has not yet been made on the school's application.

Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the MDCE's Proportionate Share of the Net Pension Liability
Last Seven Fiscal Years (1)

	2020	2019	2018	2017
<i>School Employees Retirement System (SERS)</i>				
MDCE's Proportion of the Net Pension Liability	0.00978651%	0.01028667%	0.01023438%	0.01000518%
MDCE's Proportionate Share of the Net Pension Liability	\$ 585,544	\$ 589,137	\$ 611,481	\$ 732,287
MDCE's Covered Payroll (2)	\$ 266,844	\$ 334,637	\$ 330,764	\$ 335,286
MDCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	219.43%	176.05%	184.87%	218.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.85%	71.36%	69.50%	62.98%
<i>State Teachers Retirement System (STRS)</i>				
MDCE's Proportion of the Net Pension Liability	0.01009200%	0.01045509%	0.01093895%	0.01104276%
MDCE's Proportionate Share of the Net Pension Liability	\$ 2,231,785	\$ 2,298,839	\$ 2,598,571	\$ 3,696,345
MDCE's Covered Payroll (2)	\$ 1,174,929	\$ 1,188,307	\$ 1,202,550	\$ 1,195,571
MDCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	189.95%	193.45%	216.09%	309.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.40%	77.31%	75.30%	66.80%

(1) Information prior to 2014 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 through 2020 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

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.

<u>2016</u>	<u>2015</u>	<u>2014</u>
0.00987290%	0.00808789%	0.00808789%
\$ 563,357	\$ 409,324	\$ 480,961
\$ 195,918	\$ 159,971	\$ 80,867
287.55%	255.87%	594.76%
69.16%	71.70%	65.52%
0.01040154%	0.01054914%	0.01054914%
\$ 2,874,681	\$ 2,565,916	\$ 3,056,502
\$ 1,010,614	\$ 975,038	\$ 979,185
284.45%	263.16%	312.15%
72.10%	74.70%	69.30%

Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the MDCE's Contributions - Pension
Last Ten Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 43,163	\$ 36,024	\$ 45,176	\$ 46,307
Contributions in Relation to the Contractually Required Contribution	<u>(43,163)</u>	<u>(36,024)</u>	<u>(45,176)</u>	<u>(46,307)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
MDCE's Covered Payroll (1)	\$ 308,307	\$ 266,844	\$ 334,637	\$ 330,764
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.50%	13.50%	14.00%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 159,333	\$ 164,490	\$ 166,363	\$ 168,357
Contributions in Relation to the Contractually Required Contribution	<u>(159,333)</u>	<u>(164,490)</u>	<u>(166,363)</u>	<u>(168,357)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
MDCE's Covered Payroll (1)	\$ 1,138,093	\$ 1,174,929	\$ 1,188,307	\$ 1,202,550
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 2020 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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 46,940	\$ 25,822	\$ 22,172	\$ 11,192	\$ 12,765	\$ 11,976
<u>(46,940)</u>	<u>(25,822)</u>	<u>(22,172)</u>	<u>(11,192)</u>	<u>(12,765)</u>	<u>(11,976)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 335,286	\$ 195,918	\$ 159,971	\$ 80,867	\$ 94,907	\$ 95,274
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%
\$ 167,380	\$ 141,486	\$ 126,755	\$ 127,294	\$ 146,017	\$ 148,901
<u>(167,380)</u>	<u>(141,486)</u>	<u>(126,755)</u>	<u>(127,294)</u>	<u>(146,017)</u>	<u>(148,901)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,195,571	\$ 1,010,614	\$ 975,038	\$ 979,185	\$ 1,123,208	\$ 1,145,392
14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

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Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the MDCE's Proportionate Share of the Net OPEB Liability/(Asset)
Last Four Fiscal Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>				
MDCE's Proportion of the Net OPEB Liability	0.01006019%	0.01019270%	0.01006954%	0.00982108%
MDCE's Proportionate Share of the Net OPEB Liability	\$ 252,993	\$ 282,773	\$ 270,240	\$ 279,937
MDCE's Covered Payroll (2)	\$ 266,844	\$ 334,637	\$ 330,764	\$ 335,286
MDCE's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	94.81%	84.50%	81.70%	83.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	15.57%	13.57%	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>				
MDCE's Proportion of the Net OPEB Liability (Asset)	0.01009200%	0.01045509%	0.01093895%	0.01104276%
MDCE's Proportionate Share of the Net OPEB Liability (Asset)	\$ (167,148)	\$ (168,003)	\$ 426,798	\$ 590,570
MDCE's Covered Payroll (2)	\$ 1,174,929	\$ 1,188,307	\$ 1,202,550	\$ 1,195,571
MDCE's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	-14.23%	-14.14%	35.49%	49.40%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	174.70%	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 through 2020 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

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: Madison Community Elementary
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the MDCE's Contributions - OPEB
Last Ten Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 3,750	\$ 6,346	\$ 5,958	\$ 3,863
Contributions in Relation to the Contractually Required Contribution	<u>(3,750)</u>	<u>(6,346)</u>	<u>(5,958)</u>	<u>(3,863)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
MDCE's Covered Payroll (2)	\$ 308,307	\$ 266,844	\$ 334,637	\$ 330,764
OPEB Contributions as a Percentage of Covered Payroll (1)	1.22%	2.38%	1.78%	1.17%
<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>
MDCE's Covered Payroll (2)	\$ 1,138,093	\$ 1,174,929	\$ 1,188,307	\$ 1,202,550
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 2020 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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 3,231	\$ 4,269	\$ 2,873	\$ 1,452	\$ 2,544	\$ 2,386
<u>(3,231)</u>	<u>(4,269)</u>	<u>(2,873)</u>	<u>(1,452)</u>	<u>(2,544)</u>	<u>(2,386)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 335,286	\$ 195,918	\$ 159,971	\$ 80,867	\$ 94,907	\$ 95,274
0.96%	2.18%	1.80%	1.80%	2.68%	2.50%
\$ 0	\$ 0	\$ 9,750	\$ 9,792	\$ 11,232	\$ 11,454
<u>0</u>	<u>0</u>	<u>(9,750)</u>	<u>(9,792)</u>	<u>(11,232)</u>	<u>(11,454)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,195,571	\$ 1,010,614	\$ 975,038	\$ 979,185	\$ 1,123,208	\$ 1,145,392
0.00%	0.00%	1.00%	1.00%	1.00%	1.00%

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CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County, Ohio

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

Beginning in fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc COLA. Prior to 2018, an assumption of 3.0 percent was used.

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 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 - SERS

With the authority granted to the Board under SB 8, the Board enacted a three-year COLA delay for future benefit recipients commencing on or after April 1, 2018.

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.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

Changes in Benefit Terms - STRS

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

Note 2 - Net OPEB Liability (Asset)

Changes in Assumptions - SERS

Amounts reported incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented as follows:

Municipal Bond Index Rate:

Fiscal year 2020	3.13 percent
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2020	3.22 percent
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Pre-Medicare

Fiscal year 2020	7.00 percent initially, decreasing to 4.75 percent
Fiscal year 2019	7.25 percent initially, decreasing to 4.75 percent
Fiscal year 2018	7.50 percent initially, decreasing to 4.00 percent

Medicare

Fiscal year 2020	5.25 percent initially, decreasing to 4.75 percent
Fiscal year 2019	5.375 percent initially, decreasing to 4.75 percent
Fiscal year 2018	5.50 percent initially, decreasing to 5.00 percent

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

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.

Changes in Benefit Terms – SERS

There have been no changes to the benefit provisions.

Changes in Benefit Terms – STRS

For fiscal year 2020, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021

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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March 24, 2021

To the Board of Directors
Constellation Schools: Madison Community Elementary
Cuyahoga County, Ohio
2015 W 95th St,
Cleveland, OH 44102

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Constellation Schools: Madison Community Elementary, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated March 24, 2021, in which we noted the financial impact of COVID-19 and ensuing emergency measures will continue to impact subsequent periods of the School.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Independence, Ohio

OHIO AUDITOR OF STATE KEITH FABER



CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 5/11/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov