

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Dave Yost • Auditor of State

January 11, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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

DAVE YOST
Auditor of State

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Mary Taylor, CPA
Auditor of State

Board of Trustees
Constellation School: Parma Community
5983 West 54th Street
Parma, Ohio 44134

We have reviewed the *Independent Auditor's Report* of the Constellation School: Parma Community, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 School: Parma Community is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 28, 2010

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**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 24, 2010

The Board of Trustees
Constellation Schools: Parma Community
5983 West 54th Street
Parma, Ohio 44129

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Parma Community (the School), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Constellation Schools: Parma Community, as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis For the Year Ended June 30, 2010

The discussion and analysis of Constellation Schools: Parma Community (PC) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the financial performance of PC as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of PC.

Financial Highlights

Key financial highlights for 2010 include the following:

- In total, net assets increased \$137,865, which represents a 42.1% increase from 2009. An increase in revenues due primarily to increased enrollment, services provided to other schools and federal stimulus programs were offset by higher operating costs which included hiring additional staff for the increased enrollment and increased student support, management and food services costs.
- Total assets increased \$165,652, which represents a 2.8% increase from 2009. This is due to collection of receivables from prior years, increases in bond escrow accounts and the realization of net income for the year.
- Liabilities increased \$27,787 which represents a 0.5% increase from 2009. Increases in vendor payables, bond fees payable and deferred revenue occurred during the year.
- Operating revenues increased by \$458,422, which represents a 10.2% increase from 2009. This is a direct result of additional enrollment. A fourth classroom was added to grade 3; a third classroom was added to grade 4 and the high school added an eleventh grade.
- Expenses increased by \$773,555 which represents a 15.7% increase from 2009. Operating expense increases are due hiring additional staff and providing more services for the increase in enrollment, as well as additional management services and increased depreciation.
- Non-operating revenues increased by \$521,806, which represents a 132.6% increase from 2009. This increase is due to increased federal grants for the increased school enrollment and federal stimulus funds which has been partially offset by more than a \$13,350 reduction in interest earnings.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2010

Statement of Net Assets

The Statement of Net Assets looks at how well PC has performed financially through June 30, 2010. This statement includes all of the assets, liabilities and net assets 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 Assets for fiscal years ended June 30, 2010 and 2009 for PC.

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$446,707	\$257,890	\$188,817	73.2%
Other Current Assets	334,032	407,027	(72,995)	-17.9%
Non-Current Assets	1,379,167	1,322,370	56,797	4.3%
Capital Assets	<u>3,943,987</u>	<u>3,950,954</u>	<u>(6,967)</u>	<u>-0.2%</u>
Total Assets	<u>6,103,893</u>	<u>5,938,241</u>	<u>165,652</u>	<u>2.8%</u>
Liabilities				
Current Liabilities	293,478	265,691	27,787	10.5%
Long-Term Liabilities	<u>5,345,000</u>	<u>5,345,000</u>	<u>0</u>	<u>0.0%</u>
Total Liabilities	<u>5,638,478</u>	<u>5,610,691</u>	<u>27,787</u>	<u>0.5%</u>
Net Assets				
Investment in capital assets, net of related debt	160,263	226,745	(66,482)	-29.3%
Restricted for Debt Purposes, net of related debt	39,728	(33,209)	72,937	-219.6%
Unrestricted	<u>265,424</u>	<u>134,014</u>	<u>131,410</u>	<u>98.1%</u>
Total Net Assets	<u>\$465,415</u>	<u>\$327,550</u>	<u>\$137,865</u>	<u>42.1%</u>

Net Assets increased \$137,865, primarily because of increased enrollment, services to other schools and federal stimulus programs offset by higher operating costs. Cash increased \$188,817; bond escrow accounts decreased \$43,374; due from other governments increased \$42,448; accounts receivable decreased \$72,068; bond reserve accounts increased \$75,142; deferred charges decreased \$18,346 and net capital assets decreased \$6,967 from 2009. Accounts payable increased \$22,367; accrued wages and benefits decreased \$6,078; and deferred revenues increased \$11,499 from 2009.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2010

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2010.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for PC for fiscal years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$4,529,668	\$4,180,283	\$349,385	8.4%
Other Operating Revenues	405,228	296,191	109,037	36.8%
Total Operating Revenues	<u>4,934,896</u>	<u>4,476,474</u>	<u>458,422</u>	<u>10.2%</u>
Interest Income	0	13,369	(13,369)	-100.0%
Federal and State Grants	915,375	377,464	537,911	142.5%
Private Grants and Contributions	0	2,736	(2,736)	-100.0%
Total Non-Operating Revenues	<u>915,375</u>	<u>393,569</u>	<u>521,806</u>	<u>132.6%</u>
Total Revenues	<u>5,850,271</u>	<u>4,870,043</u>	<u>980,228</u>	<u>20.1%</u>
Expenses				
Salaries	2,583,863	2,135,738	448,125	21.0%
Fringe Benefits	721,847	555,008	166,839	30.1%
Purchased Services	1,474,014	1,275,341	198,673	15.6%
Materials and Supplies	267,688	316,880	(49,192)	-15.5%
Capital Outlay	64,075	84,484	(20,409)	-24.2%
Depreciation and Amortization	161,235	142,338	18,897	13.3%
Other Operating Expenses	439,684	429,062	10,622	2.5%
Total Expenses	<u>5,712,406</u>	<u>4,938,851</u>	<u>773,555</u>	<u>15.7%</u>
Net Income/(Loss)	<u>137,865</u>	<u>(68,808)</u>	<u>206,673</u>	<u>-300.4%</u>
Net Assets at Beginning of the Year	<u>327,550</u>	<u>396,358</u>	<u>(68,808)</u>	<u>-17.4%</u>
Net Assets at End of Year	<u>\$465,415</u>	<u>\$327,550</u>	<u>\$137,865</u>	<u>42.1%</u>

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2010

Net Assets increased in fiscal year 2010 and decreased in fiscal year 2009. For 2010 the increase is due to increased enrollment, services provided to other schools and federal stimulus programs which were offset by higher operating costs which included hiring additional staff for the increased enrollment and increased student support, management and food services costs. For 2009 the decrease is due to the increased use of bond escrow funds for debt service related to bond financing for building renovations and to set up new classrooms for additional classes at the elementary and high school levels. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The two most significant increases in revenues from 2009 to 2010 are increases of \$349,386 in Foundation funding due to increased enrollment and the introduction of \$430,628 in federal stimulus funding to the school through the state of Ohio. Other Operating Revenues increased due to providing services to other schools and enrollment related fees. Federal and State Grants (other than stimulus funding) increased \$107,284 due to increased title allocations.

Most categories of expense increased from 2009 to 2010 as a direct result of the enrollment increases. Salaries and Fringe Benefits increased \$614,964 due to additional staffing and annual increases. Purchased services increased \$198,673 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$49,192 and Capital Outlay decreased \$20,409 for purchases of text books, classroom supplies, furniture and equipment. Depreciation and amortization increased \$18,897. Other Expenses increased \$10,622.

Capital Assets

As of June 30, 2010, PC had \$3,943,987 invested in land, building, building improvements, computers, technology, furniture and equipment, net of depreciation. This is a \$6,967 decrease over June 30, 2009.

The following schedule provides a summary of the School's Fixed Assets as of June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$483,200	\$483,200	\$0	0.0%
Building	1,978,401	2,034,000	(55,599)	-2.7%
Building Improvements	1,293,799	1,327,895	(34,096)	-2.6%
Computers and Technology	77,560	41,049	36,511	88.9%
Furniture and Equipment	111,027	64,810	46,217	71.3%
Net Capital Assets	<u>\$3,943,987</u>	<u>\$3,950,954</u>	<u>(\$6,967)</u>	<u>-0.2%</u>

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis
For the Year Ended June 30, 2010

Debt Service

On November 28, 2003 PC purchased the land and building in which it operates at 7667 Day Drive in Parma. Financing of the purchase was accomplished through two mortgages. The first mortgage was held by US Bank National Association and the second mortgage was held by Thomas J. Coury, Trustee.

On January 23, 2008, PC refinanced the land and building on Day Drive in which it operates. Additional funds were borrowed to facilitate the purchase and renovation of a former school building located on West 54th Street in Parma. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the properties occupied by PC. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2010 is \$5,345,000. During August 2008 the mortgage was transferred from Wells Fargo Bank, National Association to US Bank, National Association. For more information on debt service see the Notes to the Financial Statements.

Current Financial Issues

PC opened in the fall of 2000. The school has grown from 37 students, six teaching staff members and expenses of \$380,240 to a total of 753 students, 70 teaching staff members and expenses of \$5,712,406. During fiscal year 2010 the school continued its high school expansion by adding an eleventh grade class with plans for grade 12 by fiscal year 2011. PC currently operates out of two buildings to accommodate the enrollment demand generated by the success of the school.

During the past year as the nation has experienced a major economic downturn, the Board of Directors, school management and school staff have worked diligently to ensure that the school maintains the high level of educational services and financial integrity that we have always provided. Our goal is to provide a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for PC and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Treasurer/CFO Thomas F. Babb, CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Parma Community
Cuyahoga County
Statement of Net Assets
As of June 30, 2010**

Assets:

Current Assets:

Cash	\$446,707
Escrow Accounts	221,837
Due from Other Governments	112,195
<i>Total Current Assets</i>	<u>780,739</u>

Non-Current Assets:

Bond Reserve Accounts	874,655
Deferred Charges	504,512
Non-Depreciable Capital Assets	483,200
Capital Assets (Net of Accumulated Depreciation)	3,460,787
<i>Total Non-Current Assets</i>	<u>5,323,154</u>

<i>Total Assets</i>	<u>6,103,893</u>
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Liabilities:

Current Liabilities:

Accounts Payable	49,970
Interest Payable	185,068
Deferred Revenue	58,440
<i>Total Current Liabilities</i>	<u>293,478</u>

Long Term Liabilities:

Capital Lease Bond Notes Payable	<u>5,345,000</u>
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<i>Total Liabilities</i>	<u>5,638,478</u>
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Net Assets:

Investment in capital assets, net of related debt	160,263
Restricted for Debt Purposes, net of related debt	39,728
Unrestricted	265,424
<i>Total Net Assets</i>	<u>\$465,415</u>

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

**Constellation Schools: Parma Community
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$4,529,668
Other Operating Revenues	405,228
<i>Total Operating Revenues</i>	<u>4,934,896</u>

Operating Expenses:

Salaries	2,583,863
Fringe Benefits	721,847
Purchased Services	1,474,014
Materials and Supplies	267,688
Capital Outlay	64,075
Depreciation and Amortization	161,235
Other Operating Expenses	69,548
<i>Total Operating Expenses</i>	<u>5,342,270</u>

Operating Loss	<u>(407,374)</u>
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Non-Operating Revenues & Expenses:

Interest Expense	(370,136)
Federal and State Grants	915,375
<i>Total Non-Operating Revenues & Expenses</i>	<u>545,239</u>

Net Income	<u>137,865</u>
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Net Assets at Beginning of the Year	<u>327,550</u>
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Net Assets at End of Year	<u><u>\$465,415</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Parma Community
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$4,529,668
Cash Payments to Suppliers for Goods and Services	(2,520,041)
Cash Payments to Employees for Services	(2,589,942)
Other Operating Revenues	430,447
Net Cash Used for Operating Activities	<u>(149,868)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>876,511</u>
Net Cash Provided by Noncapital Financing Activities	<u>876,511</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(135,922)
Decrease in Escrow Funds	43,374
Decrease in Bond Reserve Accounts	(75,142)
Bond Interest Payments	<u>(370,136)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(537,826)</u>

Net Increase in Cash	188,817
Cash at Beginning of Year	<u>257,890</u>
Cash at End of Year	<u><u>\$446,707</u></u>

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

**Constellation Schools: Parma Community
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010
(Continued)**

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

Operating Loss	(\$407,374)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation and Amortization	161,235
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Changes in Assets and Liabilities:

(Increase) in Due from Other Governments	(3,584)
Decrease in Accounts Receivable	72,068
Increase in Accounts Payable	21,916
(Decrease) in Accrued Wages and Benefits	(5,628)
Increase in Deferred Revenue	11,499

Total Adjustments	257,506
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Net Cash Used for Operating Activities	(\$149,868)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

I. Description of the School and Reporting Entity

Constellation Schools: Parma Community (PC) is a nonprofit corporation established March 14, 2000 as Parma Community School (PCS) pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On September 19, 2001, PC received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of PC. PC, which is part of Ohio's education program, is independent of any school district. PC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PC.

PC (as PCS) was approved for operation under a contract between the Governing Authority of Constellation Schools: Parma Community and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2000 and terminating on June 30, 2005. On October 16, 2003 PC (as PCS) entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC was subsequently renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIV for further discussion of the sponsor services. PC entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XIV for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Parma Community.

PC operates under a five member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls the instructional facilities for PC, which is staffed by seventy certificated full time teaching personnel who provided services to 753 students. During 2010, the board members for PC also serve as the board for Constellation Schools: Madison Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of PC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. PC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. PC has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of PC's accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

3. Cash

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

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 PC prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. PC will from time to time adopt budget revisions as necessary.

5. Due From Other Governments and Accounts Receivable

Monies due PC for the year ended June 30, 2010 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.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$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, computers, technology and furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets or less. Estimated useful lives are as follows:

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

7. Intergovernmental Revenues

PC currently participates in the State Foundation Program, the State Poverty Based Assistance Program and the Federal State Fiscal Stabilization Funds Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. PC also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, the American Recovery and Reinvestment Act 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 2010 school year totaled \$5,445,043.

8. Private Grants and Contributions

PC received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. The school did not receive any private grants during the 2010 school year.

9. Compensated Absences

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

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

10. 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.

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11. Deferred Revenue

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

12. Deferred Charges

Deferred charges have been recorded on the Statement of Net Assets to recognize financing fees related to the bond financing arrangement discussed in Note VIII. These charges are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method.

III. Deposits

At fiscal year end June 30, 2010, the carrying amount of PC' deposits totaled \$446,707 and its bank balance was \$517,887. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2010, \$267,887 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 PC and the Industrial Development Authority of the County of Pima, Arizona totaled \$1,096,491 at fiscal year end June 30, 2010. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

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

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IV. Capital Assets

A summary of capital assets at June 30, 2010 follows:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/10</u>
Capital Assets Not Being Depreciated:				
Land	\$483,200	\$0	\$0	\$483,200
Capital Assets Being Depreciated:				
Building	2,223,971	0	0	2,223,971
Building Improvements	1,382,507	3,395	0	1,385,902
Computers and Technology	98,717	72,893	0	171,610
Furniture and Equipment	91,680	59,634	0	151,314
Total Capital Assets Being Depreciated	<u>3,796,875</u>	<u>135,922</u>	<u>0</u>	<u>3,932,797</u>
Less Accumulated Depreciated:				
Building	(189,971)	(55,599)	0	(245,570)
Building Improvements	(54,612)	(37,491)	0	(92,103)
Computers and Technology	(57,668)	(36,382)	0	(94,050)
Furniture and Equipment	(26,870)	(13,417)	0	(40,287)
Total Accumulated Depreciation	<u>(329,121)</u>	<u>(142,889)</u>	<u>0</u>	<u>(472,010)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>3,467,754</u>	<u>(6,967)</u>	<u>0</u>	<u>3,460,787</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$3,950,954</u>	<u>(\$6,967)</u>	<u>\$0</u>	<u>\$3,943,987</u>

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V. Purchased Services

Purchased Services include the following:

Instruction	\$135,305
Pupil Support Services	281,657
Staff Development & Support	19,258
Administrative	693,960
Occupancy Costs	220,052
Food Services	119,357
Student Activities	<u>4,425</u>
 Total Purchased Services	 <u><u>\$1,474,014</u></u>

VI. Day Drive School Building Purchase

On November 28, 2003, PC purchased the building it occupied at 7667 Day Drive, Parma. The purchase price of \$1,200,000 and other purchase costs totaling \$7,172 have been capitalized and are being depreciated over a forty year period. During 2010 grades Kindergarten through 3 were located at this site.

In order to finance a multi-million dollar expansion project, PC sold the building and land which it occupies to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing arrangement. PC leases the property from IDA under a capitalized lease arrangement (see Note VIII). The original purchase price, other purchase costs and building improvements continue to be recognized as capital assets and are being depreciated over their remaining useful life. Loan fees, previously capitalized under the original mortgage, have been expensed net of accumulated depreciation.

VII. West 54th Street Building

During fiscal year 2008, PC leased facilities located at 5983 West 54th Street in Parma from Constellation Schools (CS) under a one-year lease agreement effective August 1, 2007. In order to finance a multi-million dollar expansion project, this lease was cancelled and CS sold the building and land which it leased to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. PC currently leases the property from IDA under a capitalized lease arrangement (see Note VIII).

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VIII. Capital Lease Bond Notes Payable

On January 23, 2008 PC closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the Day Drive property owned by PC and the West 54th Street property owned by Constellation Schools (CS) for the remaining mortgage balances carried by PC and CS at the time. In addition IDA is financing substantial building renovations at the West 54th Street property to meet increasing demand for enrollment. Both properties are leased back to PC through annual lease renewals through January 2038. IDA secured mortgages on the land, building and improvements from Wells Fargo Bank, National Association which was transferred to US Bank, National Association in August 2008. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2010 is \$5,345,000 and interest payable due July 1, 2010 is \$185,068. Interest expense during 2010 totaled \$370,136. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	<u>6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/10</u>	<u>Due In One Year</u>
Lease					
Revenue					
Bonds	<u>\$5,345,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$5,345,000</u>	<u>\$0</u>

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during fiscal year 2009 and Construction in Progress totaling \$1,231,244 was transferred to the building improvements capital account. Issuance costs, finance fees and underwriters discount totaling \$550,377 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2010 was \$45,865. The Bond Indenture requires PC to meet certain covenants. As of June 30, 2010 PC is in compliance with those covenants.

As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee and subsequently transferred to US Bank, N. A. Payments for construction and financing activities have been paid from

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these accounts through June 30, 2010. Lease payments were made by PC to cover bond interest and administrative fees due in July 2010 and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term. Lease payments made during 2010 to fund interest, reserves and bond expenses totaled \$458,644.

The balances of escrow and reserve accounts as of June 30, 2010 are as follows:

Bond Fund	\$ 214,066
Expense Fund	<u>7,771</u>
Total Escrow Accounts	<u>\$221,837</u>
Reserve Fund	\$ 533,076
Supplemental Reserve	74,326
Operating Reserve	<u>267,253</u>
Total Bond Reserve Accounts	<u>\$ 874,655</u>

The assets refinanced and acquired through the capital lease as of June 30, 2010 are as follows:

Land	\$ 483,200
Building	2,223,971
Building Improvements	1,385,902
Bond Finance Fees	<u>550,377</u>
Sub-Total	4,643,450
Less Accumulated Depreciation	<u>(383,538)</u>
Net Book Value	<u>\$4,259,912</u>

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

Year	Principal	Interest	Total
2011	\$0	\$370,136	\$370,136
2012	64,110	370,136	434,246
2013	68,456	366,050	434,506
2014	72,802	361,685	434,487
2015	77,148	357,044	434,192
2016 - 2020	465,066	1,705,144	2,170,210
2021 - 2025	645,442	1,524,820	2,170,262

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	2026 - 2030	906,228	1,264,914	2,171,142
	2031 - 2035	1,270,238	900,120	2,170,358
	2036 - 2038	<u>1,775,510</u>	<u>306,303</u>	<u>2,081,813</u>
	Total	<u>\$5,345,000</u>	<u>\$7,526,352</u>	<u>\$12,871,352</u>

IX. Sub Lease

PC sub-leases space to Constellation Schools (CS) which provides management services to PC (see Note XIV). Under the terms of the sub-lease CS made monthly lease payments of \$2,500 through June, 2010 for an annual amount of \$30,000. As of June 30, 2010, all of the rent due from CS had been collected.

X. Risk Management

1. Property and Liability Insurance

PC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2010, PC contracted with Indiana Insurance Company for all of its insurance.

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

2. Workers' Compensation

PC makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been three claims filed by PC employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2010. The total payments made for these claims have been \$1,344. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of PC as June 30, 2010.

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3. Employee Medical, Dental, and Life Benefits

PC provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by PC for the fiscal year is \$286,498.

XI. Defined Benefit Pension Plans

1. State Teachers Retirement System

PC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service

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credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount for DB Plan participants.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members’ designated beneficiary is entitled to receive the member’s account balance.

Member contributions in the Combined Plan are allocated by the member, and employer contributions are used to fund a defined benefit payment. A members’ defined benefit is determined by multiplying 1% of the members’ final average salary by the members’ years of service credit. The defined portion of the Combined Plan is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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The DB and Combined Plan offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2009 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

PC's required contributions for pension obligations for the fiscal years ended June 30, 2010, 2009 and 2008 were \$310,835, \$252,810 and \$169,684, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

PC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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Plan members are required to contribute 10% of their annual covered salary and PC is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. PC's contributions to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$26,996, \$26,712 and \$17,999, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

XII. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plans. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Section 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, 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. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2010, 2009 and 2008 PC's contributions to post-employment health care were \$23,910, \$19,447 and \$12,120, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

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2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2010 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2010, 2009 and 2008 PC contributions to Medicare Part B were \$1,465, \$1,431 and \$874, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Ohio Revised Code provides a statutory authority to fund SERS' postemployment benefits through employee contributions. Active members do not make contributions to the postemployment plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2010 the health care allocation is 0.46%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than

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1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2010, 2009 and 2008 PC contributions to the Health Care Plan, including the surcharge were \$3,801, \$12,023 and \$6,233, respectively; 23.34% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008. \$2,913 representing the unpaid surcharge due for fiscal year 2010 is recorded as a liability within the respective funds.

XIII. Contingencies

1. Grants

PC received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of PC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PC at June 30, 2010.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2010 are immaterial and are not reflected in the financial statements but will be included in the financial activity for fiscal year 2011.

XIV. Sponsorship and Management Agreements

PC entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement, effective October 16, 2003, was renewed effective November 2, 2006. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2010 Foundation payments received by PC, from

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the State of Ohio. The total amount due from PC for fiscal year 2010 was \$67,945, all of which was paid prior to June 30, 2010.

PC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2010. The agreement was for a period of one year, effective July 1, 2009. Management fees are calculated as 6% of the Fiscal Year 2010 Foundation and State Fiscal Stabilization Funds payment received by PC from the State of Ohio plus a fixed fee of \$275,000. The total amount due from PC for the fiscal year ending June 30, 2010 was \$549,980 all of which was paid prior to June 30, 2010.

XV. Restricted for Debt Purposes, Net of Related Debt

Restricted for Debt Purposes, net of related debt 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 was included in Escrow Accounts, was being held for construction purposes and was liquidated during the fiscal year. The Bond Fund and the Expense Fund, which are included in Escrow Accounts, along with the Bond Reserve Accounts, which are being held for bond financing reserve requirements, will be funded until January 1, 2038.

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 24, 2010

To the Board of Trustees
Constellation Schools: Parma Community
3200 West 65th Street
Cleveland, OH 44102

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

We have audited the financial statements of the governmental activities of the Constellation Schools: Parma Community (the School) as of and for the year ended June 30, 2010, which collectively comprise the Constellation Schools: Parma Community's basic financial statements and have issued our report thereon dated November 24, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Constellation Schools: Parma Community in a separate letter dated November 24, 2010.

This report is intended solely for the information and use of the Board of Trustees, audit committee, federal awarding agencies and pass-through agencies, management and the School's sponsor, and is not intended to be and should not be used by anyone other than these specific parties..

Hea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 24, 2010

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Constellation Schools: Parma Community with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Constellation Schools: Parma Community's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Constellation Schools: Parma Community's management. Our responsibility is to express an opinion on the Constellation Schools: Parma Community's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Constellation Schools: Parma Community's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Constellation Schools: Parma Community's compliance with those requirements.

In our opinion, the Constellation Schools: Parma Community complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Constellation Schools: Parma Community is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Constellation Schools: Parma Community as of and for the year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, audit committee, federal awarding agencies and pass-through agencies, management and the School's sponsor, and is not intended to be and should not be used by anyone other than these specific parties.

Hea & Associates, Inc.

CONSTELLATION SCHOOLS: PARMA COMMUNITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Cash Receipts	Cash Disbursements
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2010	\$ 209,902	\$ 217,548
Total Title I			209,902	217,548
Title II-A - Improving Teacher Quality	84.367	2010	10,105	15,774
Total Title II-A - Improving Teacher Quality			10,105	15,774
<i>Special Education Cluster:</i>				
IDEA Part B	84.027	2010	121,622	131,184
ARRA - IDEA Part B	84.391	2010	114,420	118,019
Total IDEA Part B			236,042	249,203
Early Childhood Special Education	84.173	2010	104	0
Total Early Childhood Special Education			104	0
Total Special Education Cluster			236,146	249,203
Safe and Drug-Free Schools	84.186	2010	987	0
Total Safe and Drug-Free Schools			987	0
Technology Literacy Challenge Fund Grant	84.318	2010	2,595	2,512
Total Technology Literacy Challenge Fund Grant			2,595	2,512
ARRA - State Fiscal Stabilization Fund	84.394	2010	312,609	309,904
Total State Fiscal Stabilization Fund			312,609	309,904
<i>Total U.S. Department of Education</i>			772,344	794,941
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program (A)	10.553	2010	20,456	20,456
Total School Breakfast Program			20,456	20,456
National School Lunch Program (A)	10.555	2010	74,205	74,205
Total National School Lunch Program			74,205	74,205
Total Child Nutrition Cluster			94,661	94,661
<i>Total U.S. Department of Agriculture</i>			94,661	94,661
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 867,005</u>	<u>\$ 889,602</u>

See Notes to Schedule of Expenditures of Federal Awards

CONSTELLATION SCHOOLS: PARMA COMMUNITY
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2010

(A) Federal money is commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

(B) The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE’s approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year’s activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2010, the Ohio Department of Education (ODE) authorized the following transfers:

CFDA Number / Grant Title	Grant Year	Transfer In	Transfer Out
84.010 Title I	2010	\$ 2,089	
84.010 Title I	2009		\$ 2,089
84.027 Special Education IDEA Part B	2010	594	
84.027 Special Education IDEA Part B	2009		594
84.173 Early Childhood Special Ed.	2010	328	
84.173 Early Childhood Special Ed.	2009		328

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster CFDA #84.027 and #84.391; State Fiscal Stabilization Fund CFDA #84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

No Findings noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No Findings noted.



Mary Taylor, CPA
Auditor of State

PARMA COMMUNITY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 11, 2011**