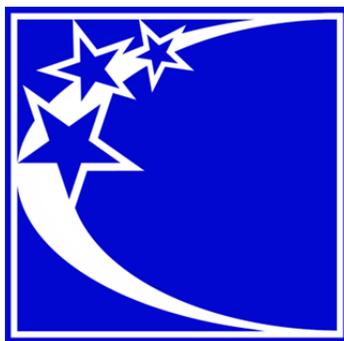


**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE
CUYAHOGA COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2012



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Stockyard Community Middle
3200 West 65th Street
Cleveland, Ohio 44102

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Stockyard Community Middle, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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: Stockyard Community Middle is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 29, 2013

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**CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE
CUYAHOGA COUNTY**

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November 27, 2012

The Board of Trustees
Constellation Schools: Stockyard Community Middle
3200 West 65th Street
Cleveland, Ohio 44102

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Stockyard Community Middle, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2012, 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 the School, as of June 30, 2012, 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 27, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hea & Associates, Inc.

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

The discussion and analysis of Constellation Schools: Stockyard Community Middle (SCM) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the financial performance of SCM 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 SCM.

Financial Highlights

Key financial highlights for 2012 include the following:

- The school began operations in August 2010 by enrolling grades 7 and 8 with 51 students and a staff of five. In 2012 the school grew by 16 students and three staff members.
- In total, net assets increased \$48,460, which represents a 50.2% increase from 2011. Increased enrollment provided a significant increase in state foundation revenues, materials fees and other student related revenues. The school collected a total of \$297,463 in Federal Public Charter School Program grant revenues and a \$33,750 contribution from Constellation Schools.
- Total assets increased \$242,441, which represents a 127.5% increase from 2011. This increase includes increases in cash, prepaid expenses and net capital assets; with decreases in accounts receivable, state basic aid receivable and federal grants receivable.
- Liabilities increased \$193,981, which represents a 207.3% increase from 2011. Increases in loans payable and payable to other governments were offset by decreases in vendor payables and deferred revenue.
- Operating revenues increased \$172,307, which represents a 45.5% increase from 2011. The majority of the revenue increase is from the State Foundation and Poverty Based Assistance program, food service collections, materials fees and facility rental.
- Expenses increased \$440,480 which represents an 87.2% increase from 2011. Increases occurred in every expense category, and are almost entirely the result of the enrollment increase from 2011.
- Non-operating revenues increased by \$220,014, which represents a 98.7% increase from 2011. This is due to increased federal title funding and increased federal public charter school program grant funds collected during the year. These increases were slightly offset by a decrease in contributions from Constellation Schools.

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: STOCKYARD COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Statement of Net Assets

The Statement of Net Assets looks at how well SCM has performed financially through June 30, 2012. 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, 2012 and 2011 for SCM.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$121,324	\$42,812	\$78,512	183.4%
Other Current Assets	12,443	28,144	(15,701)	-55.8%
Non-Current Assets	3,561	3,561	0	0.0%
Capital Assets	<u>295,306</u>	<u>115,676</u>	<u>179,630</u>	<u>155.3%</u>
Total Assets	<u>432,634</u>	<u>190,193</u>	<u>242,441</u>	<u>127.5%</u>
Liabilities				
Current Liabilities	<u>287,555</u>	<u>93,574</u>	<u>193,981</u>	<u>207.3%</u>
Total Liabilities	<u>287,555</u>	<u>93,574</u>	<u>193,981</u>	<u>207.3%</u>
Net Assets				
Investment in capital assets, net of related debt	36,659	51,520	(14,861)	-28.8%
Unrestricted	<u>108,420</u>	<u>45,099</u>	<u>63,321</u>	<u>140.4%</u>
Total Net Assets	<u>\$145,079</u>	<u>\$96,619</u>	<u>\$48,460</u>	<u>50.2%</u>

Net Assets increased \$48,460, due primarily to an enrollment increase during 2012. Cash increased \$78,512; accounts receivable decreased \$5,330; due from other governments decreased \$17,593; prepaid expenses increased \$7,222 and net capital assets increased \$179,630 from 2011. Accounts payable decreased \$4,596; due other governments increased \$5,690; deferred revenues decreased \$1,604 and loans payable increased \$194,491 from 2011.

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

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, 2012.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for MCM for fiscal years ended June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$478,800	\$342,686	\$136,114	39.7%
Other Operating Revenues	72,314	36,121	36,193	100.2%
Total Operating Revenues	<u>551,114</u>	<u>378,807</u>	<u>172,307</u>	<u>45.5%</u>
Federal and State Grants	409,097	172,833	236,264	136.7%
Private Grants and Contributions	33,750	50,000	(16,250)	-32.5%
Total Non-Operating Revenues	<u>442,847</u>	<u>222,833</u>	<u>220,014</u>	<u>98.7%</u>
Total Revenues	<u>993,961</u>	<u>601,640</u>	<u>392,321</u>	<u>65.2%</u>
Expenses				
Salaries	291,325	200,305	91,020	45.4%
Fringe Benefits	74,241	58,211	16,030	27.5%
Purchased Services	248,809	132,221	116,588	88.2%
Materials and Supplies	157,570	67,643	89,927	132.9%
Capital Outlay	48,455	17,236	31,219	181.1%
Depreciation and Amortization	96,535	23,531	73,004	310.2%
Other Expenses	28,566	5,874	22,692	386.3%
Total Expenses	<u>945,501</u>	<u>505,021</u>	<u>440,480</u>	<u>87.2%</u>
Net Income/(Loss)	<u>48,460</u>	<u>96,619</u>	<u>(48,159)</u>	<u>-49.8%</u>
Net Assets at Beginning of the Year	<u>96,619</u>	<u>0</u>	<u>96,619</u>	<u>100.0%</u>
Net Assets at End of Year	<u>\$145,079</u>	<u>\$96,619</u>	<u>\$48,460</u>	<u>50.2%</u>

Net Assets increased in both fiscal years 2012 and 2011 for a combined net increase. These combined increases are due to enrollment increases, federal entitlement grants and collection of federal public school program funds. 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.

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant change in revenues from 2011 to 2012 are increases of \$136,114 in State Foundation funding due to enrollment increases and increased federal grant funding for title programs and public charter school program totaling \$234,465. Other increases occurred in collections of materials fees; student food service payments and facility rental revenues with decreases in miscellaneous income and contributions.

Every category of expense increased from 2011 to 2012 due entirely to the increase in enrollment plus the use of federal charter school program funds. Salaries and Fringe Benefits increased \$107,050 due to staff changes and annual increases. Purchased services increased \$116,588 due to increases in student support services, professional development, administrative expenses, facility costs, food services and student activities. Materials and Supplies increased \$89,927 due to purchases of instruction supplies, testing materials text books and maintenance supplies for current and future enrollment growth. Capital Outlay increased \$31,219 due to classroom and administrative technology, furniture and equipment purchases. Depreciation increased \$73,004 as a direct result additional capital purchases and facility leasehold improvements during the year. Other Expenses increased \$22,692 due to increases in loan interest, audit fees, insurance premiums and other miscellaneous expenses.

Capital Assets

As of June 30, 2012, SCM had \$295,306 invested in building improvements, computers, technology, furniture and equipment, net of depreciation. This is a \$179,630 increase over June 30, 2011.

The following schedule provides a summary of Capital Assets as of June 30, 2012 and 2011 for SCM:

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Building Improvements	\$212,837	\$72,214	\$140,623	194.7%
Computers and Technology	39,120	29,987	9,133	30.5%
Furniture and Equipment	<u>43,349</u>	<u>13,475</u>	<u>29,874</u>	<u>221.7%</u>
Net Capital Assets	<u>\$295,306</u>	<u>\$115,676</u>	<u>\$179,630</u>	<u>155.3%</u>

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

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Current Financial Issues

Constellation Schools: Stockyard Community Middle opened in August 2010. The school has grown from 51 students, 5 teaching staff members and expenses of \$505,021 to a total of 67 students, 8 teaching staff members and expenses of \$945,501. The school currently serves students in grade seven and eight. For fiscal year 2013 the school is budgeted to grow to a total of 80 students.

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 in all of our schools. 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 SCM 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: Stockyard Community Middle
Cuyahoga County
Statement of Net Assets
As of June 30, 2012**

Assets:

Current Assets:

Cash	\$121,324
Prepaid Expenses	10,784
Due from Other Governments	1,659
<i>Total Current Assets</i>	<u>133,767</u>

Non-Current Assets:

Security Deposit	3,561
Capital Assets (Net of Accumulated Depreciation)	295,306
<i>Total Non-Current Assets</i>	<u>298,867</u>

<i>Total Assets</i>	<u>432,634</u>
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Liabilities:

Current Liabilities:

Accounts Payable	22,411
Due to Other Governments	5,690
Loans Payable	258,647
Deferred Revenue	807
<i>Total Current Liabilities</i>	<u>287,555</u>

<i>Total Liabilities</i>	<u>287,555</u>
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Net Assets:

Investment in capital assets, net of related debt	36,659
Unrestricted	108,420
<i>Total Net Assets</i>	<u><u>\$145,079</u></u>

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

**Constellation Schools: Stockyard Community Middle
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$478,800
Other Operating Revenues	<u>72,314</u>

<i>Total Operating Revenues</i>	<u>551,114</u>
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Operating Expenses:

Salaries	291,325
Fringe Benefits	74,241
Purchased Services	248,809
Materials and Supplies	157,570
Capital Outlay	48,455
Depreciation	96,535
Other Operating Expenses	<u>18,411</u>

<i>Total Operating Expenses</i>	<u>935,346</u>
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Operating Loss	<u>(384,232)</u>
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Non-Operating Revenues:

Interest Expense	(10,155)
Federal and State Grants	409,097
Private Grants and Contributions	<u>33,750</u>

<i>Total Non-Operating Revenues</i>	<u>432,692</u>
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Net Income	<u>48,460</u>
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Net Assets at Beginning of the Year	<u>96,619</u>
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Net Assets at End of Year	<u><u>\$145,079</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Stockyard Community Middle
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$495,869
Cash Payments to Suppliers for Goods and Services	(559,304)
Cash Payments to Employees for Services	(291,325)
Other Operating Revenues	<u>76,040</u>
Net Cash Used for Operating Activities	<u>(278,720)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	33,750
Federal and State Grants Received	<u>415,312</u>
Net Cash Provided by Noncapital Financing Activities	<u>449,062</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(276,166)
Loan Proceeds	235,844
Loan Principal Payments	(41,353)
Loan Interest Payments	<u>(10,155)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(91,830)</u>
Net Increase in Cash	78,512
Cash at Beginning of Year	<u>42,812</u>
Cash at End of Year	<u><u>\$121,324</u></u>

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

**Constellation Schools: Stockyard Community Middle
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012
(Continued)**

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

Operating Loss	(\$384,232)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	96,535
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments	11,379
(Increase) in Accounts Receivable	5,330
(Increase) in Prepaid Expenses	(7,222)
Increase) in Due to Other Governments	5,690
(Decrease) in Accounts Payable	(4,596)
(Decrease) in Deferred Revenue	(1,604)

Total Adjustments	105,512
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Net Cash Used for Operating Activities	(\$278,720)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

I. Description of the School and Reporting Entity

Constellation Schools: Stockyard Community Middle (SCM), is a nonprofit corporation established on December 22, 2008 as Constellation Schools: Detroit-Shoreway Community Elementary 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 3, 2010 the name of the school was changed to Constellation Schools: Capital Elementary with the intent to open a school in Columbus, Ohio. An agreement to lease a facility fell through and the school name was changed to its current name on September 21, 2010. On October 17, 2012, SCM was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of SCM. SCM, which is part of Ohio's education program, is independent of any school district. SCM may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of SCM.

SCM (as CE) was approved for operation under a contract dated May 13, 2010 between the Governing Authority of SCM (as CE) and Buckeye Community Hope Foundation (BCHF) (the Sponsor) through June 30, 2015. Approval to operate SCM (as CE) and to open a school in the fall of 2010 was made by BCHF on August 16, 2010. The school now operates under the name of Constellation Schools: Stockyard Community Middle in Cleveland, Ohio. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XII for further discussion of the sponsor services. SCM entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XII for further discussion of this management agreement.

SCM 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 SCM instructional facility staffed by eight certificated full time teaching personnel who provided services to 67 students. During 2012, the board members for SCM also serve as the board for Constellation Schools: Collinwood Village Academy.

II. Summary of Significant Accounting Policies

The financial statements of SCM 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 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. SCM also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. SCM has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of SCM'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. SCM 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 SCM 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 SCM must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to SCM on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE

**- A Community School -
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Monies due SCM for the year ended June 30, 2012 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. Depreciation of 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 Improvements	Up to 5
Computers and Technology	3
Furniture and Equipment	10

7. Intergovernmental Revenues

SCM currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. SCM also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, Education Jobs 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.

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

SCM participated in the Federal Public Charter School Program through the Ohio Department of Education. Under this program, SCM was awarded \$225,000 in fiscal year 2011 and another \$225,000 in fiscal year 2012. During fiscal year 2011, \$97,424 of the 2011 award was received with the remaining \$127,576 received in fiscal year 2012. A total of \$169,887 of the 2012 award was received prior to June 30, 2012 with the remaining \$55,113 received in fiscal year 2013. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2012 school year totaled \$887,897.

8. Private Grants and Contributions

SCM receives grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2012 school year totaled \$33,750 from Constellation Schools, which provides management services to SCM (see Note XII).

9. Compensated Absences

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

11. Deferred Revenue

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

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY MIDDLE

**- A Community School -
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

III. Deposits

At fiscal year end June 30, 2012, the carrying amount of SCM' deposits totaled \$121,324 and its bank balance was \$213,044. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2012, none of the bank balance was exposed to custodial risk as discussed below, while \$213,044 was covered by the Federal Depository Insurance Corporation.

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

IV. Operating Lease

SCM leases its facilities from 3200 W. 65th Street, LLC under a five-year and one month lease agreement for the period July 23, 2010 through August 23, 2015. For fiscal year 2012, SCM leased 9,885 square feet with the option of expanding during the term of the lease up to 16,885 square feet. A security deposit of \$3,561.25 was made at the beginning of the lease term. Monthly rent was \$7,811 and total rents paid during the fiscal year were \$92,802.

VII. Purchased Services

Purchased Services include the following:

Instruction	\$7,903
Pupil Support Services	20,421
Staff Development & Support	21,515
Administrative	26,878
Occupancy Costs	128,853
Food Services	42,373
Student Activities	866
	<hr/>
Total Purchased Services	<u>\$248,809</u>

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V. Capital Assets

A summary of capital assets at June 30, 2012 follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Capital Assets Being Depreciated				
Building Improvements	\$85,045	\$211,569	\$0	\$296,614
Computers and Technology	39,963	30,149	0	70,112
Furniture and Equipment	14,199	34,447	0	48,646
Total Capital Assets Being Depreciated	<u>139,207</u>	<u>276,165</u>	<u>0</u>	<u>415,372</u>
Less Accumulated Depreciation				
Building Improvements	(12,831)	(70,946)	0	(83,777)
Computers and Technology	(9,976)	(21,016)	0	(30,992)
Furniture and Equipment	(724)	(4,573)	0	(5,297)
Total Accumulated Depreciation	<u>(23,531)</u>	<u>(96,535)</u>	<u>0</u>	<u>(120,066)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$115,676</u>	<u>\$179,630</u>	<u>\$0</u>	<u>\$295,306</u>

V. Loans Payable

On June 30, 2011 SCM executed two unsecured promissory notes with Constellation Schools: Westpark Community Elementary and Constellation Schools: Puritas Community Elementary in the amount of \$150,000 to each school for a total of \$300,000. Each note carries interest at 4% per annum. Interest only was charged through September 30, 2011 at which time interest and principal payments began. Payments are based on a five year amortization schedule with a balloon payment for the principal balance due at June 30, 2012. During June 2012 the notes were extended with the same amortization schedule through June 30, 2013 at which time the

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FOR THE YEAR ENDED JUNE 30, 2012

remaining principal balance will be due. As of June 30, 2012, the combined principal balance owed is \$258,647 under the notes.

VIII. Risk Management

1. Property and Liability Insurance

SCM 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 2012, SCM contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$4,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 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 during the schools' first year of operations, nor has there been any significant reduction in insurance coverage during the year.

2. Workers' Compensation

SCM makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by SCM employees with the Ohio Worker's Compensation System between January 1, 2010 and June 30, 2012.

3. Employee Medical, Dental, Vision and Life Benefits

SCM 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 SCM for the fiscal year is \$24,350.

IX. Defined Benefit Pension Plans

1. State Teachers Retirement System

SCM 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.

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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 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

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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.

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, 2011 (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%.

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SCM's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011 and 2010 were \$33,546, \$26,040 and \$-0-, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

SCM 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.

Plan members are required to contribute 10% of their annual covered salary and SCM 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, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. SCM's contributions to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$4,659, \$-0- and \$-0-, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

X. 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.

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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, 2012, 2011 and 2010 SCM's contributions to post-employment health care were \$2,580, \$2,003, and \$-0-, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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 2011 was \$96.40 for most participants, but could be as high as \$369.10 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 2011 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2012, 2011 and 2010 SCM contributions to Medicare Part B were \$253, \$-0- and \$-0-, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

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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, 2011 the health care allocation is 1.43%. 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 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, 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, 2012, 2011 and 2010 SCM contributions to the Health Care Plan, including the surcharge were \$971, \$-0- and \$-0-, respectively; 49.0% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010. \$495 representing the unpaid surcharge due for fiscal year 2012 is recorded as a liability within the respective funds.

XI. Contingencies

1. Grants

SCM 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 SCM. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of SCM at June 30, 2012.

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 2012 are material and are included in Due From Other Governments for fiscal year 2012.

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3. Student Attendance Data Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of education at a later date.

SCM received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally 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 the General Fund or other applicable fund. This also encompasses the Auditor of State's ongoing review of student attendance data. The effect of any such disallowed claims on the overall financial position of the school as of June 30, 2012, if applicable, cannot be determined at this time.

XII. Sponsorship and Management Agreements

SCM entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective until June 30, 2015. Sponsorship fees are calculated as 3% of the Fiscal Year 2012 Foundation payments received by SCM, from the State of Ohio. The total amount due from SCM for fiscal year 2012 was \$14,876, all of which was paid prior to June 30, 2012.

SCM entered into an agreement with Constellation Schools LLC to provide legal, financial, and business management services for fiscal year 2012. The agreement was for a period of one year, effective July 1, 2011. Management fees are calculated as 6.25% of the Fiscal Year 2012 Foundation and State Fiscal Stabilization Funds payment received by SCM from the State of Ohio plus a fixed fee of \$43,325. The total amount due from SCM for the fiscal year ending June 30, 2012 was \$49,073. In June 2012 CS issued a credit to SCM for the entire amount of the management fee due for 2012, therefore there was no management fee due CS for the 2012 fiscal year.

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November 27, 2012

To the Board of Trustees
Constellation Schools: Stockyard Community Middle
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 Constellation Schools: Stockyard Community Middle, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. 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

Management of the School is responsible for establishing and maintaining effective 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.

Constellation Schools: Stockyard Community Middle
Independent Auditors 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*
Page 2

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 are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the School's sponsor, and is not intended to be and should not be used by anyone other than those specified parties

Rea & Associates, Inc.



Dave Yost • Auditor of State

STOCKYARD COMMUNITY MIDDLE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 12, 2013**