CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Stockyard Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Elementary is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 10, 2009

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CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY
CUYAHOGA COUNTY

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

November 26, 2008

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Stockyard Community Elementary (the School), as of and for the year ended June 30, 2008, 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: Stockyard Community Elementary, as of June 30, 2008, 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 26, 2008 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.

The discussion and analysis of Constellation Schools: Stockyard Community Elementary (SCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the financial performance of SCE 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 SCE.

Financial Highlights

Key financial highlights for 2008 include the following:

- In total, net assets increased $37,070, which represents a 10.5% increase from 2007. This increase is due primarily to increased enrollment and improved efficiencies in operating the school.

- Total assets increased $2,719,543, which represents a 601.5% increase from 2007. This is due to the deposit of funds from bond financing proceeds into escrow accounts and increased capital assets from real estate purchasing, renovation and financing fees.

- Liabilities increased $2,682,473, from 2007. This is entirely from bond financing of the land and building occupied by SCE and the financing of the renovations to the building.

- Operating revenues increased by $284,514, which represents a 22.2% increase from 2007. This increase is a result of increased enrollment and annual increases in basic state foundation aid.

- Expenses increased by $348,335 which represents a 23.2% increase from 2007. Operating expense increases are due to hiring more staff, normal annual increases and increased debt service as a result of the bond financing of the land, building and renovations.

- Non-operating revenues decreased by $182,608, which represents an 36.2% decrease from 2007. This decrease is due to receipt of the final Federal start-up grant allocation for the school in 2007.

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.

Statement of Net Assets

The Statement of Net Assets looks at how well SCE has performed financially through June 30, 2008. 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, 2008 and 2007 for SCE.

	2008	2007
Assets		
Cash	$ 274,080	$ 306,176
Other Current Assets	1,032,240	25,751
Non-Current Assets	793,210	0
Capital Assets	1,072,145	120,205
Total Assets	3,171,675	452,132
Liabilities		
Current Liabilities	142,236	99,763
Long-Term Liabilities	2,640,000	0
Total Liabilities	2,782,236	99,763
Net Assets		
Investments in capital assets net of related debt	136,443	120,205
Temporarily Restricted assets net of related debt	110,693	0
Unrestricted	142,303	232,164
Net Assets	$ 389,439	$ 352,369

Net Assets increased $37,070, due primarily to increased enrollment and improved operating efficiencies. For assets, cash decreased $32,096; bond escrow accounts increased $1,021,781; due from other governments decreased $15,403; accounts receivable increased $230; prepaid employee withholding decreased $119; bond reserve accounts increased $404,712; deferred charges increased $388,498 and net capital assets increased $951,940 from 2007. For liabilities, accounts payable decreased $39,426; due to other governments decreased $21,925; interest payable increased $91,409; accrued wages and benefits increased $12,353; deferred revenues decreased $62 and bond notes payable increased $2,640,000 from 2007.

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, 2008.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for SCE for fiscal years ended June 30, 2008 and 2007.

	2008	**2007**
Revenues		
Foundation and Poverty Based Assistance Revenues	$1,533.294	$1,259,102
Other Operating Revenues	33,835	23,513
Operating Revenues	1,567,129	1,282,615
Interest	12,102	1,655
Federal and State Grants	309,208	501,263
Private Grants and Contributions	0	1,000
Non-Operating Revenues	321,310	503,918
Total Revenues	1,888,439	1,786,533
Expenses		
Salaries	726,760	538,142
Fringe Benefits	219,120	155,873
Purchased Services	592,861	574,891
Materials and Supplies	76,776	176,072
Capital Outlay	23,542	2,336
Depreciation and Amortization	60,105	25,571
Other Operating Expenses	152,205	30,149
Total Expenses	1,851,369	1,503,034
Net Income/(Loss)	37,070	283,499
Net Assets at Beginning of Year	352,369	68,870
Net Assets at End of Year	$ 389,439	$ 352,369

Net Assets increased in both fiscal years ending June 30, 2007 and 2008. This is due to increased enrollment and improved operating efficiencies for both years. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

Overall, revenues increased by $101,896 from 2007 to 2008. The most significant item in revenues is Foundation and Poverty Based Assistance funds which increased $274,192 from increasing enrollment and increases in the formula amount. Other revenues increased slightly from 2007 levels. Revenue decreased $192,055 in Federal and State Grants due to receipt of the final federal charter school start-up grant allocated for the school during 2007.

Most categories of expense increased from 2007 to 2008. This is a direct result of normal annual increases in operating costs, increased services for an increased enrollment and higher debt service due to bond financing. Salaries and Fringe Benefits increased $251,865 due to additional staffing and annual increases. Purchased services increased $17,970 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies decreased $99,296 due to sufficient prior years purchases text books and classroom supplies, Capital Outlay increased $21,206 to purchase furniture and equipment for classroom expansion. Depreciation and amortization increased $34,534 as a direct result of additional purchases of furniture, equipment, building improvements, bond fees and building acquisition during the year. Other Operating Expenses increased $122,056 due mainly to bond issue debt service.

Capital Assets

As of June 30, 2008, SCE had $1,072,145 invested in computers and office equipment, furniture and equipment, land, building, construction in progress, bond finance fees, and building improvements, net of depreciation. This is a $951,940 increase over June 30, 2007.

The following schedule provides a summary of Fixed Assets as of June 30, 2008 and 2007 for SCE.

	2008	2007
Capital Assets (net of depreciation)		
Land	$ 380,000	$ 0
Building	562,875	0
Building Improvements	7,852	37,552
Computers and Office Equipment	61,909	20,034
Furniture, Equipment & Materials	59,509	62,619
Net Fixed Assets	$1,072,145	$ 120,205

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

Capital Lease

On January 23, 2008, SCE entered into a financing arrangement to purchase and renovate the building it occupies. 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 SCE. 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, 2008 is $2,640,000.

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

Current Financial Issues

Constellation Schools: Stockyard Community Elementary opened in the fall of 2004. In its fourth year of operations it has grown from 35 students, three teaching staff members and expenses of $410,613 to a total of 209 students, 26 teaching staff members and expenses of $1,851,369. SCE exercised its purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima. SCE leases the space from IDA as part of a multi-school, multi-property bond financing arrangement to purchase, renovate and expand school buildings. As the School's enrollment moves to capacity we will continue to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for SCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer, by mail at Constellation Schools, 5983 West 54th Street, Parma, Ohio 44129; by e-mail at babb.thomas@constellationschools.com; by calling 440.845.7688; or by faxing 440.845.7689.

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Constellation Schools: Stockyard Community Elementary
Cuyahoga County
Statement of Net Assets
As of June 30, 2008

Assets:	
Current Assets:	
Cash	$274,080
Escrow Accounts	1,021,781
Due from Other Governments	9,212
Accounts Receivable	1,247
Total Current Assets	1,306,320
Non-Current Assets:	
Bond Reserve Accounts	404,712
Deferred Charges	388,498
Capital Assets (Net of Accumulated Depreciation)	1,072,145
Total Non-Current Assets	1,865,355
Total Assets	3,171,675
Liabilities:	
Current Liabilities:	
Accounts Payable	32,662
Interest Payable	91,409
Accrued Wages and Benefits	12,353
Deferred Revenue	5,812
Total Current Liabilities	142,236
Long Term Liabilities:	
Bond Notes Payable	2,640,000
Total Liabilities	2,782,236
Net Assets:	
Investment in capital assets, net of related debt	136,443
Temporarily Restricted assets, net of related debt	110,693
Unrestricted	142,303
Total Net Assets	$389,439

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

Constellation Schools: Stockyard Community Elementary
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$1,533,294
Other Operating Revenues	33,835
Total Operating Revenues	1,567,129
Operating Expenses:	
Salaries	726,760
Fringe Benefits	219,120
Purchased Services	592,861
Materials and Supplies	76,776
Capital Outlay	23,542
Depreciation and Amortization	60,105
Other Operating Expenses	71,969
Total Operating Expenses	1,771,133
Operating Loss	(204,004)
Non-Operating Revenues & Expenses:	
Interest Income	12,102
Interest Expense	(80,236)
Federal and State Grants	309,208
Total Non-Operating Revenues & Expenses	241,074
Net Income	37,070
Net Assets at Beginning of the Year	352,369
Net Assets at End of Year	$389,439

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

Constellation Schools: Stockyard Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,511,369
Cash Payments to Suppliers for Goods and Services	(1,022,272)
Cash Payments to Employees for Services	(715,941)
Other Operating Revenues	33,898
Net Cash Used for Operating Activities	(192,946)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	324,611
Net Cash Provided by Noncapital Financing Activities	324,611
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(1,012,045)
Payments for Deferred Charges	(388,498)
Bond Issue Proceeds	2,640,000
Bond Interest Credit Proceeds	11,173
Increase in Escrow Funds	(1,426,493)
Net Cash Used for Capital and Related Financing Activities	(175,863)
Cash Flows from Investing Activities:	
Interest	12,102
Net Cash Provided by Investing Activities	12,102
Net Decrease in Cash	(32,096)
Cash at Beginning of Year	306,176
Cash at End of Year	$274,080

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

Constellation Schools: Stockyard Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008
(Continued)

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

Operating Loss	($204,004)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation and Amortization	60,105
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(230)
Decrease in Prepaid Employee Withholding	119
(Decrease) in Accounts Payable	(39,426)
(Decrease) in Due to Other Governments	(21,925)
Increase in Accrued Wages and Benefits	12,353
Increase in Deferred Revenue	62
Total Adjustments	11,058
Net Cash Used for Operating Activities	($192,946)

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

I. Description of the School and Reporting Entity

Constellation Schools: Stockyard Community Elementary (SCE), previously Lorain-Southside Community School (LSCE) and Stockyard Community School (SCS), is a nonprofit corporation established on October 17, 2001 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 May 5, 2003, SCE (as Lorain-Southside Community School) 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 SCE. SCE, which is part of Ohio's education program, is independent of any school district. SCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of SCE.

SCE (as LSCE) was approved for operation under a contract between the Governing Authority of SCE (as LSCE) and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 SCE (as LSCE) 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 XII for further discussion of the sponsor services. SCE 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. On March 27, 2007 the school name was changed to Constellation Schools: Stockyard Community Elementary.

SCE 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 SCE instructional facility staffed by twenty-six certificated full time teaching personnel who provide services to 209 students. During 2008, the board members for SCE also serve as the board for Constellation Schools: Westside Community School of the Arts.

II. Summary of Significant Accounting Policies

The financial statements of SCE have been prepared in conformity with generally accepted accounting principles 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. SCE also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of SCE'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. SCE 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 SCE 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 SCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to SCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Monies due SCE for the year ended June 30, 2008 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 and construction in progress. Depreciation of buildings, building improvements, computers, office equipment, 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 Office Equipment	3
Furniture and Equipment	10

7. Intergovernmental Revenues

SCE 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. SCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2008 school year totaled $1,842,502.

8. Private Grants and Contributions

SCE 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. Amounts received for the 2008 school year was $-0- and for the 2007 school year was $1,000.

9. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, SCE 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. SCE 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 SCE 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 VII. 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, 2008, the carrying amount of SCE's deposits totaled $274,080 and its bank balance was $288,617. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, $188,617 of the bank balance was exposed to custodial risk as discussed below, while $100,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, SCE 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 SCE.

IV. Capital Assets

A summary of capital assets at June 30, 2008 follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Not Being Depreciated:				
Land	$ 0	$ 380,000	$ 0	$ 380,000
Construction in Progress	0	0	0	0
Total Capital Assets Not Being Depreciated	0	380,000	0	380,000
Capital Assets Being Depreciated:				
Building	0	570,000	0	570,000
Building Improvements	90,927	7,852	(90,927)	7,852
Computers/Office Equipment	24,861	69,803	0	94,664
Furniture and Equipment	65,861	3,908	0	69,769
Total Capital Assets Being Depreciated:	181,649	651,563	(90,927)	742,285
Less Accumulated Depreciation:				
Building	(0)	(7,125)	0	(7,125)
Building Improvements	(53,375)	(11,449)	64,824	(0)
Computers/Office Equipment	(4,827)	(27,928)	0	(32,755)
Furniture and Equipment	(3,242)	(7,018)	0	(10,260)
Total Accumulated Depreciation:	(61,444)	(53,520)	64,824	(50,140)
Total Capital Assets Being Depreciated, Net	120,205	598,043	(26,103)	692,145
Total Capital Assets Net	$ 120,205	$ 978,043	$ (26,103)	$1,072,145

V. Purchased Services

Purchased Services include the following:

Instruction	$73,014
Pupil Support Services	60,364
Staff Development & Support	20,122
Administrative	219,411
Occupancy Costs	149,395
Food Services	70,555
Total	$592,861

VI. Operating Lease

SCE leased its facilities at 3200 West 65th Street, Cleveland from Richard and Lisa Lukich (see Note XIII – Related Parties) under a three-year lease agreement effective July 1, 2006 and expiring June 30, 2009. Monthly payments under the terms of the lease were $10,000. SCE had an option to purchase the building at a price to be set by appraisal should SCE exercise their option. During fiscal year 2008 rents totaling $70,000 were paid.

In order to finance a multi-million dollar expansion project, SCE exercised its' purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. SCE leases the property from IDA under a capitalized lease arrangement (see Note VII). Building improvements previously capitalized under the lease agreement have been expensed net of accumulated depreciation.

VII. Capital Leases

On January 23, 2008 SCE 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 property owned by SCE for the remaining mortgage balance carried by SCE at the time. In addition IDA is financing a multi-million dollar building expansion to meet increasing demand for enrollment. The property is leased back to SCE through annual lease renewals through January 2038. 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, 2008 is $2,640,000 and interest payable due July 1, 2008 is $91,409. Interest expense, net of a $11,173 accrued interest issuance credit, during 2008 totaled $80,236.

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. As of June 30, 2008 construction had not begun and there is no Construction in Progress to recognize. Issuance costs, finance fees and underwriters discount totaling $395,083 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, 2008 was $6,585. The Bond Indenture requires SCE to meet certain covenants. As of June 30, 2008 SCE 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. Payments for construction and financing activities have been paid from these accounts through June 30, 2008. Lease payments were made by SCE to cover bond interest and administrative fees due in July 2008 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 2008 to fund interest, reserves and bond expenses totaled $90,928. The balances of escrow and reserve accounts as of June 30, 2008 are as follows:

Project Fund	$917,040
Bond Fund	100,690
Expense Fund	4,051
Total Bond Escrow Accounts	$1,021,781
Reserve Fund	$ 265,271
Supplemental Reserve	6,658
Operating Reserve	132,783
Total Bond Reserve Accounts	$ 404,712

The assets refinanced and acquired through the capital lease as of June 30, 2008 are as follows:

Land	$ 380,000
Building	570,000
Building Improvements	7,852
Bond Finance Fees	395,083
Construction in Progress	0
Sub-Total	1,352,935
Less Accumulated Depreciation	(13,710)
Net Book Value	$1,339,225

Future minimum lease payments for principal and interest (does not include reserves and management expenses) under the capital lease are as follows:

Year	Principal	Interest	Total
2009	$ -0-	$ 182,817	$ 182,817
2010	-0-	182,817	182,817
2011	-0-	182,817	182,817
2012	31,665	182,817	214,482
2013	33,812	180,800	214,612
2014-2018	202,870	868,891	1,071,761
2019-2023	279,081	793,257	1,072,338
2024-2028	390,714	681,382	1,072,096
2029-2033	548,502	524,045	1,072,547
2034-2038	1,153,356	303,404	1,456,760
Total	$2,640,000	$ 4,083,047	$ 6,723,047

VIII. Risk Management

1. Property and Liability Insurance

SCE 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 2008, SCE 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.

2. Workers' Compensation

SCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by SCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2008. The total payments made for this claim have been $2,698. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of SCE as June 30, 2008.

3. Employee Medical, Dental, and Life Benefits

SCE 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 SCE for the fiscal year is $94,835.

IX. Defined Benefit Pension Plans

1. State Teachers Retirement System

SCE 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. 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% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members' 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.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. 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.

The Combined Plan offers features of the DC Plan and the DB Plan. Member contributions are allocated to investments selected by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Plan 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 members 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.

For the fiscal year ended June 30, 2008, members were required to contribute 10% of their annual covered salary and SCE was required to contribute 14%. Member and employer contributions were 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 provided by Chapter 3307 of the Ohio Revised Code. Of the 14% contributed by SCE, 13% was the portion used to fund pension obligations.

SCE's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were $86,673, $66,293 and $36,548, respectively; 98.40% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. $1,391 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

SCE 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 *Forms and Publications*.

Plan members are required to contribute 10% of their annual covered salary and SCE is required to contribute at an actuarially determined rate. The current rate is 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. SCE's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $8,406, $3,947, and $2,940, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

X. Post-Employment Benefits Other than Pension Benefits

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan 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. 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. For the fiscal years ended June 30, 2008, 2007 and 2006 SCE's contributions to post-employment health care were $6,667, $5,099 and $2,811, respectively; 98.40% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. $107 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds.

SERS administers two post-employment benefit plans, the Medicare Part B Plan and the Health Care Plan as permitted by Ohio Revised Code Sections 3309.69 and 3309.375. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees. The Health Care Plan provides health care and prescription drug plans administered by two third-party administrators. The Retirement Board establishes rules for premiums paid by retirees for health care coverage and varies depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The Medicare Part B premium reimbursement plan reimburses eligible retirees for the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2007 (most recent information available) was $93.50. SERS' reimbursement to retirees was $45.50. The Retirement Board, with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2007 (most recent information available) the actuarially required allocation was .68%. For the fiscal years ended June 30, 2008, 2007 and 2006 SCE's contributions to Medicare Part B were $408, $192 and $143, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

The Health Care Plan is funded through employer contributions. Each year after allocations for required benefits the Retirement Board allocates the remainder of the employers' 14% contribution. At June 30, 2007 (the most recent information available) the health care allocation was 3.32%. The actuarially required contribution (ARC), as of December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

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 2008, the minimum compensation level was established at $35,800.

For fiscal years ended June 30, 2008, 2007 and 2006 SCE contributions to the Health Care Plan, including the surcharge were $2,827, $1,364 and $1,034, respectively; 67.96% has been contributed for fiscal year 2008 and 100% for fiscal year s 2007 and 2006. $906 representing the unpaid surcharge due for fiscal year 2008 is recorded as a liability within the respective funds.

XI. Contingencies

1. Grants

SCE 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 SCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of SCE at June 30, 2008.

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. As of the date of this report adjustments to the state funding received during fiscal year 2008 are reflected in the financial statements.

XII. Sponsorship and Management Agreements

SCE entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2008 Foundation payments received by SCE, from the State of Ohio. The total amount due from SCE for fiscal year 2008 was $22,671, all of which was paid prior to June 30, 2008.

SCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2008. The agreement was for a period of one year, effective July 1, 2007. Management fees are calculated as 5.5% of the Fiscal Year 2008 Foundation payment received by SCE from the State of Ohio plus a fixed fee of $100,000. The total amount due from SCE for the fiscal year ending June 30, 2008 was $184,331 all of which was paid prior to June 30, 2008.

XIII. Related Parties

SCE leased its facilities at 3200 West 65th Street, Cleveland from Richard and Lisa Lukich (see Note VI – Operating Leases). The building was purchased by Richard and Lisa Lukich as an accommodation to the school which was unable to purchase the building as a start-up business. Richard Lukich is President of the Board of Trustees for Constellation Schools, which is the management company referred to in Note XII. The monthly rent amount was set by a fair market appraisal of rents in which the area the school is located.

XVI. Temporarily Restricted Assets, Net of Related Debt

Temporarily Restricted assets, 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 is included in Escrow Accounts, is being held for Construction purposes and will be liquidated during the next eighteen months. 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.

XIV. Construction Commitments

The following construction commitments at June 30, 2008 will be financed with capital lease proceeds:

Project	Total Authorized Cost	Expended to June 30, 2008	Balance at June 30, 2008
Stockyard Building Expansion	$930,000	$0	$930,000

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

November 26, 2008

To the Board of Trustees
Constellation Schools: Stockyard Community Elementary
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 Elementary as of and for the year ended June 30, 2008, which collectively comprise the School’s basic financial statements and have issued our report thereon dated November 26, 2008. 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 Constellation Schools: Stockyard Community Elementary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Constellation Schools: Stockyard Community Elementary in a separate letter dated November 26, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Constellation Schools: Stockyard Community Elementary'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.

Mary Taylor, CPA
Auditor of State

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 16, 2009

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