

**CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
LORAIN COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2013



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Elyria Community
300 North Abbe Road
Elyria, OH 44035

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Elyria Community, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. 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: Elyria Community is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

December 9, 2013

**CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
LORAIN COUNTY**

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INDEPENDENT AUDITOR'S REPORT

November 19, 2013

To the Board of Trustees
Constellation Schools: Elyria Community
300 North Abbe Road
Elyria, OH 44035

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Constellation Schools: Elyria Community, Lorain County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the School, as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

The discussion and analysis of Constellation Schools: Elyria Community (EC) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the financial performance of EC as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of EC.

Financial Highlights

Key financial highlights for 2013 include the following:

- In total, net position increased \$409,862, which represents a 33.3% increase from 2012. Increased enrollment provided a significant increase in state foundation revenues, materials fees federal grants and other student related revenues. This was offset by a reduction in Contributions, service income and other income.
- Total assets increased \$321,711, which represents a 15.9% increase from 2012. Increases in cash were partially offset by decreases in short term assets and capital assets.
- Liabilities decreased \$88,151, which represents an 11.1% decrease from 2012 due entirely from an decrease in equipment lease payables and mortgage notes payable offset by increases in vendor payables.
- Operating revenues increased by \$558,828, which represents a 20.4% increase from 2012. Significant enrollment increases generated a large increase in Foundation revenue and other revenues directly related to students. The school also received the first payment of Casino tax revenues during the year.
- Expenses increased \$459,957 which represents a 16.3% increase from 2012. Increases occurred in almost every expense category, and are almost entirely the result of the enrollment increase from 2012.
- Non-operating revenues increased by \$34,297, which represents a 9.5% increase from 2012. This is due to increased federal funding due to the enrollment increase and was partially offset by decreased private grants and contributions.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Statement of Net Position

The Statement of Net Position looks at how well EC has performed financially through June 30, 2013. This statement includes all of the assets, liabilities and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Position for fiscal years ended June 30, 2013 and 2012 for EC.

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$1,040,454	\$670,832	\$369,622	55.1%
Other Current Assets	29,857	40,082	(10,225)	-25.5%
Non-Current Assets	33,677	33,677	0	100.0%
Capital Assets	<u>1,242,307</u>	<u>1,279,993</u>	<u>(37,686)</u>	<u>-2.9%</u>
Total Assets	<u>2,346,295</u>	<u>2,024,584</u>	<u>321,711</u>	<u>15.9%</u>
Liabilities				
Current Liabilities	161,487	138,310	23,177	16.8%
Long-Term Liabilities	<u>544,038</u>	<u>655,366</u>	<u>(111,328)</u>	<u>-17.0%</u>
Total Liabilities	<u>705,525</u>	<u>793,676</u>	<u>(88,151)</u>	<u>-11.1%</u>
Net Position				
Net Investment in Capital Assets	585,094	518,619	66,475	12.8%
Unrestricted	<u>1,055,676</u>	<u>712,289</u>	<u>343,387</u>	<u>48.2%</u>
Total Net Position	<u>\$1,640,770</u>	<u>\$1,230,908</u>	<u>\$409,862</u>	<u>33.3%</u>

Net Position increased \$409,862, due primarily to a significant enrollment increase during 2013. Cash increased \$369,622; accounts receivable increased \$15,610, due from other governments decreased \$9,288, prepaid expenses decreased \$16,547 and net capital assets decreased \$37,686 from 2012. Accounts payable increased \$15,034; interest payable decreased \$1,005; deferred revenues increased \$1,981, mortgage notes payable decreased \$59,552 and equipment lease payable decreased \$44,609 from 2012.

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports operating and non-operating activities for the fiscal year ended June 30, 2013.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for EC for fiscal years ended June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$3,161,377	\$2,589,867	\$571,510	22.1%
Other Operating Revenues	131,356	144,038	(12,682)	-8.8%
Total Operating Revenues	<u>3,292,733</u>	<u>2,733,905</u>	<u>558,828</u>	<u>20.4%</u>
Federal and State Grants	383,847	334,584	49,263	14.7%
Private Grants and Contributions	13,000	27,966	(14,966)	-53.5%
Total Non-Operating Revenues	<u>396,847</u>	<u>362,550</u>	<u>34,297</u>	<u>9.5%</u>
Total Revenues	<u>3,689,580</u>	<u>3,096,455</u>	<u>593,125</u>	<u>19.2%</u>
Expenses				
Salaries	1,489,269	1,231,239	258,030	21.0%
Fringe Benefits	418,476	347,004	71,472	20.6%
Purchased Services	971,515	906,933	64,582	7.1%
Materials and Supplies	143,063	146,398	(3,335)	-2.3%
Capital Outlay	75,932	25,298	50,634	200.2%
Depreciation and Amortization	100,160	74,533	25,627	34.4%
Other Expenses	81,303	88,356	(7,053)	-8.0%
Total Expenses	<u>3,279,718</u>	<u>2,819,761</u>	<u>459,957</u>	<u>16.3%</u>
Changes in Net Position	<u>409,862</u>	<u>276,694</u>	<u>133,168</u>	<u>48.1%</u>
Net Position: Beginning of the Year	<u>1,230,908</u>	<u>954,214</u>	<u>276,694</u>	<u>29.0%</u>
Net Position: End of Year	<u>\$1,640,770</u>	<u>\$1,230,908</u>	<u>\$409,862</u>	<u>33.3%</u>

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Net Position increased in both fiscal years 2013 and 2012 for a combined net increase. This combined increase is due primarily to increasing revenues from increased enrollment and changes in federal entitlement and stimulus grants. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant changes in revenues from 2012 to 2013 are increases of \$561,869 in State Foundation funding due to enrollment increases, increased federal grants and small state grants to the school in the amount of \$49,263 and the first collection of Casino tax revenues for \$9,642. Increases occurred in collections of materials fees; and student food service payments with reductions in service revenues, contributions and miscellaneous income.

Most categories of expense increased from 2012 to 2013 due almost entirely to the significant increase in enrollment. Salaries and Fringe Benefits increased \$329,502 due to staff changes and annual increases. Purchased services increased \$64,582 due to increases in student support services, professional development, administrative expenses, facility costs, food services and student activities. Materials and Supplies decreased slightly by \$3,335 due to reduced purchases of instruction supplies, testing materials, software and maintenance supplies. Capital Outlay increased \$50,634 due to classroom technology, furniture and equipment purchases. Depreciation increased \$25,627 as a direct result additional capital purchases during the year. Other Expenses decreased \$7,053 due to decreases in interest and service charges.

Capital Assets

As of June 30, 2013, EC had \$1,242,307 invested in land, building, building improvements, leasehold improvements, technology, software, furniture and equipment, net of depreciation. This is a \$37,686 decrease from June 30, 2012.

The following schedule provides a summary of Capital Assets as of June 30, 2013 and 2012 for EC.

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$133,700	\$133,700	\$0	0.0%
Building	834,869	861,658	(26,789)	-3.1%
Building Improvements	44,999	47,028	(2,029)	-4.3%
Leasehold Improvements	17,060	2,148	14,912	694.2%
Computers and Technology	148,061	180,062	(32,001)	-17.8%
Furniture and Equipment	63,618	55,397	8,221	14.8%
	<u>\$1,242,307</u>	<u>\$1,279,993</u>	<u>(\$37,686)</u>	<u>-2.9%</u>

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

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Debt Service

On August 23, 2004 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by PNC Bank, National Association with a face value of \$918,000 for a term of fifteen years and an interest rate of 7.69% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to \$780,300. The second mortgage, which was paid off during the current fiscal year, was held by Horizon Activities Center with a face value of \$255,000 for a term of seven years and an interest rate of 7.00% per annum. The outstanding principal balance as of June 30, 2013 on the PNC Bank loan is \$525,572.

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

Equipment Lease

During fiscal year 2012 EC entered into a lease agreement with Winthrop Resources Corporation for \$193,891 worth of technology equipment. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term is for a total of 48 months, carries an interest rate of 7.38% per annum and will expire in January 2016 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2013 on the lease payable is \$131,641.

Current Financial Issues

EC opened in the fall of 2001. It has grown from 75 students, eight teaching staff members and expenses of \$485,420 to a total of 449 students, 35 teaching staff members and expenses of \$3,279,718. During this time we have purchased our own educational facility. In July 2011 EC secured a five year lease for Eastgate School with an option to purchase. This lease allowed the school to expand to a second location and to move the middle school grades. Enrollment increased nearly 33% due to the reputation of the school and the additional space from the lease.

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for EC 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: Elyria Community
Lorain County
Statement of Net Position
As of June 30, 2013

Assets:

Current Assets:

Cash	\$1,040,454
Due from Other Governments	14,247
Accounts Receivable	15,610
<i>Total Current Assets</i>	1,070,311

Non-Current Assets:

Security Deposits	33,677
Non-Depreciable Capital Assets	133,700
Capital Assets (Net of Accumulated Depreciation)	1,108,607
<i>Total Non-Current Assets</i>	1,275,984

<i>Total Assets</i>	2,346,295
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Liabilities:

Current Liabilities:

Accounts Payable	24,277
Interest Payable	3,953
Deferred Revenue	20,082
Capital Lease Equipment Payable	48,014
Mortgage Notes Payable	65,161
<i>Total Current Liabilities</i>	161,487

Long Term Liabilities:

Capital Lease Equipment Payable	83,627
Mortgage Notes Payable	460,411
<i>Total Long Term Liabilities</i>	544,038

<i>Total Liabilities</i>	705,525
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Net Position:

Net Investment in Capital Assets	585,094
Unrestricted	1,055,676

<i>Total Net Position</i>	\$1,640,770
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Elyria Community
Lorain County
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$3,161,377
Other Operating Revenues	<u>131,356</u>
<i>Total Operating Revenues</i>	<u>3,292,733</u>

Operating Expenses:

Salaries	1,489,269
Fringe Benefits	418,476
Purchased Services	971,515
Materials and Supplies	143,063
Capital Outlay	75,932
Depreciation	100,160
Other Operating Expenses	<u>27,032</u>
<i>Total Operating Expenses</i>	<u>3,225,447</u>

Operating Income	<u>67,286</u>
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Non-Operating Revenues & Expenses:

Interest Expense	(54,271)
Federal and State Grants	383,847
Private Grants and Contributions	<u>13,000</u>
<i>Total Non-Operating Revenues & Expenses</i>	<u>342,576</u>

Change in Net Position	<u>409,862</u>
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Net Position at Beginning of the Year	<u>1,230,908</u>
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Net Position at End of Year	<u><u>\$1,640,770</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Elyria Community
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$3,161,377
Cash Payments to Suppliers for Goods and Services	(1,620,247)
Cash Payments to Employees for Services	(1,489,269)
Other Operating Revenues	<u>133,337</u>
Net Cash Provided by Operating Activities	<u>185,198</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	393,335
Private Grants and Contributions	<u>13,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>406,335</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(62,474)
Mortgage Loan Principal Payments	(59,552)
Mortgage Loan Interest Payments	(43,760)
Equipment Lease Principal Payments	(44,609)
Equipment Lease Interest Payments	<u>(11,516)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(221,911)</u>
Net Increase in Cash	369,622
Cash at Beginning of Year	<u>670,832</u>
Cash at End of Year	<u><u>\$1,040,454</u></u>

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

**Constellation Schools: Elyria Community
Lorain County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013
(Continued)**

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:**

Operating Income	\$67,286
 <u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>	
Depreciation	100,160
 Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(200)
(Increase) in Accounts Receivable	(15,610)
Decrease in Prepaid Expenses	16,547
Increase in Accounts Payable	15,034
Increase in Deferred Revenue	1,981
 Total Adjustments	 117,912
 Net Cash Provided by Operating Activities	 \$185,198

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

I. Description of the School and Reporting Entity

Constellation Schools: Elyria Community (EC) is a nonprofit corporation established on August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On November 7, 2001, EC received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred which may adversely affect the tax-exempt status of EC. EC, which is part of Ohio's education program, is independent of any school district. EC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of EC.

EC was approved for operation under a contract between the Governing Authority of EC and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. On October 16, 2003 EC entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2019. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIV for further discussion of the sponsor services.

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

EC operates under a five member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls EC instructional facility staffed by thirty-five certificated full time teaching personnel and twelve support staff who provide services to 449 students. During 2013, the board members for EC also serve as the board for Constellation Schools: Lorain Community Elementary, Constellation Schools: Lorain Community Middle and Constellation Schools: Parma Community.

II. Summary of Significant Accounting Policies

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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

3. Change in Accounting Principles

For 2013, EC has implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*".

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of EC's financial statements to incorporate the

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

concepts of net position, deferred outflows of resources and deferred inflows of resources.

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

Monies due EC for the year ended June 30, 2013 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

7. Capital Assets, Mortgage Fees and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated 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 \$1,000 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated except for land. Depreciation of buildings, building improvements, technology, software, 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
Technology & Software	3 to 5
Furniture and Equipment	10

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

8. Intergovernmental Revenues

EC currently participates in the State Foundation Program, the State Poverty Based Assistance Program and Casino Tax Distribution. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. EC also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, Race to the Top 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 2013 school year totaled \$3,545,224.

9. Private Grants and Contributions

EC 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 2013 school year by EC totaled \$13,000.

10. Compensated Absences

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

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

11. Use of Estimates

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

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
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Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

12. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2013, the carrying amount of EC's deposits totaled \$1,040,454 and its bank balance was \$1,086,722. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2013, \$836,722 of the bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

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

IV. Purchased Services

Purchased Services include the following:

Instruction	\$61,116
Pupil Support Services	132,025
Staff Development & Support	5,729
Administrative	495,974
Occupancy Costs	175,873
Food Services	98,167
Student Activities	<u>2,631</u>
Total Purchased Services	<u><u>\$971,515</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

V. Capital Assets

A summary of capital assets at June 30, 2013 follows:

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
Capital Assets Not Being Depreciated:				
Land	\$133,700	\$0	\$0	\$133,700
Capital Assets Being Depreciated:				
Building	1,071,493	0	0	1,071,493
Building Improvements	64,738	1,945	0	66,683
Leasehold Improvements	2,495	19,746	0	22,241
Technology and Software	238,825	29,545	(15,545)	252,825
Furniture and Equipment	87,207	19,547	(8,084)	98,670
Total Capital Assets Being Depreciated	1,464,758	70,783	(23,629)	1,511,912
Less Accumulated Depreciated:				
Building	(209,835)	(26,789)	0	(236,624)
Building Improvements	(17,710)	(3,974)	0	(21,684)
Leasehold Improvements	(347)	(4,834)	0	(5,181)
Technology and Software	(58,763)	(55,076)	9,075	(104,764)
Furniture and Equipment	(31,810)	(9,487)	6,245	(35,052)
Total Accumulated Depreciation	(318,465)	(100,160)	15,320	(403,305)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	1,146,293	(29,377)	(8,309)	1,108,607
Total Capital Assets, Net of Accumulated Depreciation	<u>\$1,279,993</u>	<u>(\$29,377)</u>	<u>(\$8,309)</u>	<u>\$1,242,307</u>

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

VI. Capital Equipment Lease Payable

During fiscal year 2012, EC entered into a four year lease for technology equipment. This lease meets the criteria of a capital lease as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

Assets of technology equipment totaling \$193,891 have been capitalized. This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2013 totaled \$44,609 and interest paid totaled \$11,516. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2014	\$48,014	\$8,111	\$56,125
2015	51,679	4,446	56,125
2016	31,948	793	32,741
Total	\$131,641	\$13,350	\$144,991

VII. Allen School Purchase

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

VIII. Mortgage Notes Payable

On August 23, 2004, EC entered into two mortgage agreements relating to the purchase of the property at 300 North Abbe Road (see note VII). A first mortgage note in the amount of \$918,000 is held by PNC Bank, National Association (formerly National City Bank). The note is for a term of ten years with an interest rate of 7.69 percent per annum and a balloon payment due at the end of the term in fiscal year 2015. The Ohio School Facilities Commission has guaranteed the first mortgage up to \$780,300. A second mortgage note, which matured during fiscal year 2012, in the amount of \$255,000 was held by Horizon Activities Center and was subordinate to the first mortgage. The note was for a term of seven years with an interest rate of 7.00 percent per annum.

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During fiscal year 2013 principal was reduced by \$59,552 and interest expense totaled \$47,760. As of June 30, 2013 the outstanding principal balance is \$525,572. Interest payable totaling \$3,144 has been recorded as a current liability as of June 30, 2013. Principal and interest due on the outstanding mortgage note is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$65,161	\$38,152	\$103,313
2014	<u>460,411</u>	<u>7,304</u>	<u>467,715</u>
Total	<u>\$525,572</u>	<u>\$45,456</u>	<u>\$571,028</u>

IX. Lease Agreement – Eastgate School

On June 7, 2011, EC entered into a lease agreement with Eastgate Company LLC to lease the entire former school building to house the upper level grades for the school. Under the terms of the agreement a \$4,000 security deposit was made and is recorded as of June 30, 2013. The term of the lease is for five years with increasing rent each year. A purchase option of \$1,100,000 is included in the lease. Lease payments totaling \$54,996 were made during the current year. Future minimum lease payments are as follows:

<u>Year</u>	<u>Lease Payments</u>
2014	\$60,000
2015	64,992
2016	<u>64,992</u>
Total	<u>\$189,984</u>

X. Risk Management

1. Property and Liability Insurance

EC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2013, EC contracted with Indiana Insurance Company for all of its insurance.

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

2. Workers' Compensation

EC makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been nine claims filed by EC employees with the Ohio Worker's Compensation System between January 1, 2008 and June 30, 2013. The total payments made for these claims have been \$11,188. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of EC as June 30, 2013.

3. Employee Medical, Dental, Vision and Life Benefits

EC provides medical, dental, vision and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by EC for fiscal year 2013 are \$169,662.

XI. Defined Benefit Pension Plans

1. State Teachers Retirement System

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

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions

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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 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

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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, 2012 (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%.

EC's required contributions for pension obligations for the fiscal years ended June 30, 2013, 2012 and 2011 were \$175,300, \$142,764 and \$110,543 respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

2. School Employees Retirement System

EC 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 on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and EC 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, 2012 (the latest year available), the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. EC's contributions to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$19,713, 18,268 and \$11,596, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

XII. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

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

Pursuant to Section 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30,

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2013, 2012 and 2011 EC's contributions to post-employment health care were \$13,485, \$10,982 and \$8,580, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

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 2013 was \$104.90 for most participants, but could be as high as \$335.70 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 2012 the actuarially required allocation is .74%. For the fiscal years ended June 30, 2013, 2012 and 2011 EC contributions to Medicare Part B were \$1,042, \$1,011 and \$629, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012 the health care allocation is 0.16%. 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

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statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. 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, 2013, 2012 and 2011 EC contributions to the Health Care Plan, including the surcharge were \$2,689, \$3,916 and \$2,436, respectively; 8.38% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011. \$2,464 representing the unpaid surcharge due for fiscal year 2013 is recorded as a liability within the respective funds.

XIII. Contingencies

1. Grants

EC received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of EC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of EC at June 30, 2013.

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 2013 have not been calculated as of the audit date and will be included in the financial activity for fiscal year 2014.

XIV. Sponsorship and Management Agreements

EC entered into an agreement with the ECS of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2019. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2013 Foundation payments received by EC, from the State of Ohio. The total amount due from EC for fiscal year 2013 was \$47,276 all of which was paid prior to June 30, 2013.

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NOTES TO THE FINANCIAL STATEMENTS
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EC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2013. The agreement was for a period of one year, effective July 1, 2010. Management fees are calculated as 6.25% of the Fiscal Year 2013 Foundation and State Fiscal Stabilization Funds payment received by EC from the State of Ohio plus a fixed fee of \$202,125. The total amount due from EC for the fiscal year ending June 30, 2013 was \$335,230 all of which was paid prior to June 30, 2013.

XV. Subsequent Event

On October 15, 2013 PC obtained a loan to purchase technology equipment. The principal amount of the loan is \$15,732 with a term of four years and an interest rate of 3.99%.

In November 2013 EC entered into an agreement to purchase the Eastgate School property (Note IX) for \$1,100,000. The purchase is being financed by a first position mortgage loan from CF Bank in the amount of \$850,000 for a five year term at 4.75% interest and a \$250,000, second position mortgage, loan from Eastgate Company LLC for a period of five years at 4% interest. The CF Bank loan also provides for an additional amount of \$170,000 for major repairs and renovations bringing the principal total for CF Bank up to \$1,020,000.

CF Bank is also refinancing the PNC Bank mortgage loan (Note VIII) for the Allen Building in the amount of \$535,000 for a five year term at 4.75% interest rate.

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November 19, 2013

To the Board of Trustees
Constellation Schools: Elyria Community
300 North Abbe Road
Elyria, OH 44035

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Constellation Schools: Elyria Community, Lorain County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 19, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free 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*.

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio

November 19, 2013

Board of Trustees
Constellation Schools: Elyria Community
300 North Abbe Road
Elyria, OH 44035

Independent Accountant's Report on Applying Agreed-Upon Procedures

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Constellation Schools: Elyria Community (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted its anti-harassment policy at its meeting on June 17, 2010 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Medina, Ohio

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Dave Yost • Auditor of State

CONSTELLATION SCHOOLS: ELYRIA COMMUNITY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 19, 2013**