CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO

SINGLE 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: Parma Community
5983 West 54th Street
Parma, OH 44129

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Parma Community, Cuyahoga 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: Parma Community is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

December 10, 2013

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CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

November 19, 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Constellation Schools: Parma Community, Cuyahoga 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 5-10 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.

Supplementary Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements.

The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected the schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

Financial Highlights

Key financial highlights for 2013 include the following:

- In total, net position increased $169,994, which represents a 17.3% increase from 2012. An increase in revenues due entirely to increased enrollment was offset by decreased federal stimulus funding and higher operating costs which included hiring additional staff for the increased enrollment. Instructional services, student support, facility and management service costs increased due to additional service requirements for the increased enrollment.

- Total assets increased $377,164, which represents a 5.7% increase from 2012. This is due to increased cash from the realization of net income for the year, increases bond reserve accounts and increases in fixed assets from building construction offset by a decrease in prepaid expenses plus depreciation and amortization of fixed assets.

- Liabilities increased $207,170 which represents a 3.7% increase from 2012. Increases in vendor payables and notes payable were partially offset by decreased leases payable and bonds payable during the year.

- Operating revenues increased by $407,526, which represents a 6.2% increase from 2012. This is a direct result of additional enrollment. A fourth classroom was added to grade 6 and a third classroom was added to grade 5. The first installment of Casino Tax revenues were received during 2013.

- Expenses increased by $478,666 which represents a 6.7% increase from 2012. Operating expense increases are due hiring additional staff, additional services, capital purchases and increased insurance premiums. Reductions in supplies and software as well as depreciation costs partially offset the increases in the other categories.

- Non-operating revenues decreased by $136,508, which represents a 13.9% decrease from 2012. This decrease is due to expiration of the major federal stimulus programs and minor state grant funding that were provided to the school which were partially offset by an increase in 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.

Statement of Net Position

The Statement of Net Position looks at how well PC has performed financially through June 30, 2013. 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 Position for fiscal years ended June 30, 2013 and 2012 for PC.

	2013	2012	Change	%
Assets				
Cash	$1,134,665	$884,580	$250,085	28.3%
Other Current Assets	251,284	292,742	(41,458)	-14.2%
Non-Current Assets	1,481,273	1,464,874	16,399	1.1%
Capital Assets	4,104,099	3,951,961	152,138	3.8%
Total Assets	6,971,321	6,594,157	377,164	5.7%
Liabilities				
Current Liabilities	381,539	343,619	37,920	11.0%
Long-Term Liabilities	5,435,756	5,266,506	169,250	3.2%
Total Liabilities	5,817,295	5,610,125	207,170	3.7%
Net Position				
Net Investment in Capital Assets	55,848	110,586	(54,738)	-49.5%
Net Restricted for Debt Purposes	924,716	151,042	773,674	512.2%
Unrestricted	173,462	722,404	(548,942)	-76.0%
Total Net Position	$1,154,026	$984,032	$169,994	17.3%

Net Position increased $169,994, entirely due to increased enrollment which was offset by decreased federal stimulus programs and higher operating costs. Cash increased $250,085; bond escrow accounts decreased $148; due from other governments increased $7,934; bond reserve accounts increased $34,745; prepaid expenses decreased $49,244; deferred charges decreased $18,346 and net capital assets increased $152,138 from 2012. Accounts payable increased $32,869; interest payable decreased $2,295; deferred revenues increased $1,601; equipment lease payable decreased $18,323; notes payable increased $261,774 and bonds payable decreased $68,456 from 2012.

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 PC for fiscal years ended June 30, 2013 and 2012.

	2013	2012	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$6,579,318	$6,234,309	$345,009	5.5%
Other Operating Revenues	381,432	318,915	62,517	19.6%
Total Operating Revenues	6,960,750	6,553,224	407,526	6.2%
Federal and State Grants	821,526	977,888	(156,362)	-16.0%
Private Grants and Contributions	23,347	3,493	19,854	568.4%
Total Non-Operating Revenues	844,873	981,381	(136,508)	-13.9%
Total Revenues	7,805,623	7,534,605	271,018	3.6%
Expenses				
Salaries	3,519,679	3,422,840	96,839	2.8%
Fringe Benefits	1,041,328	996,795	44,533	4.5%
Purchased Services	2,027,311	1,750,089	277,222	15.8%
Materials and Supplies	259,596	276,455	(16,859)	-6.1%
Capital Outlay	100,371	40,714	59,657	146.5%
Depreciation and Amortization	178,538	195,522	(16,984)	-8.7%
Other Expenses	508,806	474,548	34,258	7.2%
Total Expenses	7,635,629	7,156,963	478,666	6.7%
Changes in Net Position	169,994	377,642	(207,648)	-55.0%
Net Position: Beginning of the Year	984,032	606,390	377,642	62.3%
Net Position: End of Year	$1,154,026	$984,032	$169,994	17.3%

Net Position increased in both fiscal years 2013 and 2012. These increases are due to increased enrollment for both years plus the addition of Casino Tax revenues in 2013 which were not available in 2012. These increased revenues were partially offset by higher operating costs which included hiring additional staff to provide educational services for the increased enrollment. 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 increase in revenues from 2012 to 2013 is an increase of $323,362 in Foundation funding due to the enrollment increase. The newly enacted Casino Tax increased revenues by another $21,647 in 2013. Federal funding to the school through the state of Ohio decreased $156,236 due to the expiration of the major federal stimulus programs. Lunch program revenues increased $7,756; materials fees collections increased $15,096 and other income increased $41,019 due to the enrollment increases for the school. Contributions also increased $19,854 in 2013. All other Operating and Non-Operating Revenues decreased by a combined total of $1,480.

Total expenses increased from 2012 to 2013 as a direct result of the enrollment increases. Salaries and Fringe Benefits increased $141,372 due to additional staffing and annual increases. Purchased services increased $277,222 due to increases in contracted substitute teachers, intervention services, instruction services, field trips, student support services, professional development, management services, food services and facility costs. Materials and Supplies decreased $16,859 for purchases of software and classroom supplies, and Capital Outlay increased $59,657 for the purchase of classroom technology, furniture and equipment. Depreciation and amortization decreased $16,984 due to capital equipment being fully depreciated. Other Expenses increased $34,258 for increases in insurance costs and student fundraising activities.

Capital Assets

As of June 30, 2013, PC had $4,104,099 invested in land, construction in process, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a $152,138 increase from June 30, 2012. The following schedule provides a summary of the School's Capital Assets as of June 30, 2013 and 2012.

	2013	2012	Change	%
Capital Assets (net of depreciation)				
Land	$483,200	$483,200	$0	0.0%
Construction in Process	262,747	0	262,747	100.0%
Building	1,811,603	1,867,203	(55,600)	-3.0%
Building Improvements	1,351,955	1,388,685	(36,730)	-2.6%
Technology and Software	109,680	102,293	7,387	7.2%
Furniture and Equipment	84,914	110,580	(25,666)	-23.2%
Net Capital Assets	$4,104,099	$3,951,961	$152,138	3.8%

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

Debt Service

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

On January 23, 2008, PC refinanced the land and building on Day Drive in which it operates. Additional funds were borrowed to facilitate the purchase and renovation of a former school building located on West 54th Street in Parma. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the properties occupied by PC. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2013 is $5,212,434. During August 2008 the mortgage was transferred from Wells Fargo Bank, National Association to US Bank, National Association. For more information on debt service see the Notes to the Financial Statements.

Construction Loan

On May 20, 2013, a bridge loan was secured with CF Bank to construct a six room addition on the West 54th Street building. The note is for a term of 2 years with interest at 3.75% per annum. Interest is paid monthly with the full principal balance due upon maturity of the note on May 20, 2015. Collateral in the form of a cash money market account was provided by the school which along with interest earned is disclosed in the financial statements as Cash-Restricted. As of June 30, 2013 $261,774 of the bank loan had been drawn.

Equipment Lease

During fiscal year 2012 PC entered into a lease agreement with Winthrop Resources Corporation for $79,640 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 $54,072.

Current Financial Issues

PC opened in the fall of 2000. The school has grown from 37 students, six teaching staff members and expenses of $380,240 to a total of 1,021 students, 92 teaching staff members and expenses of $7,635,629. During the summer of 2013 a six room addition was constructed at the West 54th site to accommodate the final growth of the school which should be complete during the next two years. PC currently operates out of two buildings to accommodate the enrollment demand generated by the success of the school.

During the past year as the nation 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 PC and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Treasurer/CFO Thomas F. Babb, CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

Constellation Schools: Parma Community
Cuyahoga County
Statement of Net Position
As of June 30, 2013

Assets:	
Current Assets:	
Cash	$409,123
Cash - Restricted	725,542
Escrow Accounts	224,851
Due from Other Governments	26,433
Total Current Assets	1,385,949
Non-Current Assets:	
Security Deposit	26,921
Bond Reserve Accounts	1,004,877
Deferred Charges	449,475
Non-Depreciable Capital Assets	745,947
Capital Assets (Net of Accumulated Depreciation)	3,358,152
Total Non-Current Assets	5,585,372
Total Assets	6,971,321
Liabilities:	
Current Liabilities:	
Accounts Payable	46,114
Interest Payable	181,175
Deferred Revenue	61,726
Capital Lease Equipment Payable	19,722
Capital Lease Bond Notes Payable	72,802
Total Current Liabilities	381,539
Long Term Liabilities:	
Notes Payable	261,774
Capital Lease Equipment Payable	34,350
Capital Lease Bond Notes Payable	5,139,632
Total Long Term Liabilities	5,435,756
Total Liabilities	5,817,295
Net Position:	
Net Investment in Capital Assets	55,848
Net Restricted for Debt Purposes	924,716
Unrestricted	173,462
Total Net Position	$1,154,026

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

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

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$6,579,318
Other Operating Revenues	381,432
Total Operating Revenues	6,960,750
Operating Expenses:	
Salaries	3,519,679
Fringe Benefits	1,041,328
Purchased Services	2,027,311
Materials and Supplies	259,596
Capital Outlay	100,371
Depreciation and Amortization	178,538
Other Operating Expenses	140,321
Total Operating Expenses	7,267,144
Operating Loss	(306,394)
Non-Operating Revenues & Expenses:	
Interest Expense	(368,485)
Federal and State Grants	821,526
Private Grants and Contributions	23,347
Total Non-Operating Revenues & Expenses	476,388
Change in Net Position	169,994
Net Position at Beginning of the Year	984,032
Net Position at End of Year	$1,154,026

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

Constellation Schools: Parma Community
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$6,579,318
Cash Payments to Suppliers for Goods and Services	(3,486,815)
Cash Payments to Employees for Services	(3,519,679)
Other Operating Revenues	383,034
Net Cash Used for Operating Activities	(44,142)
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions Received	23,347
Federal and State Grants Received	813,593
Net Cash Provided by Noncapital Financing Activities	836,940
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(312,331)
Decrease in Escrow Funds	148
Increase in Bond Reserve Accounts	(34,745)
Bond Principal Payments	(68,456)
Bond Interest Payments	(366,049)
Equipment Lease Principal Payments	(18,323)
Equipment Lease Interest Payments	(4,731)
Proceeds From Notes Payable	261,774
Net Cash Used for Capital and Related Financing Activities	(542,713)
Net Increase in Cash	250,085
Cash at Beginning of Year	884,580
Cash at End of Year	$1,134,665

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

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

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($306,394)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation and Amortization	178,538
Changes in Assets and Liabilities:	
Decrease in Prepaid Expenses	49,244
Increase in Accounts Payable	32,869
Increase in Deferred Revenue	1,601
Total Adjustments	262,252
Net Cash Used for Operating Activities	($44,142)

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

I. Description of the School and Reporting Entity

Constellation Schools: Parma Community (PC) is a nonprofit corporation established March 14, 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 September 19, 2001, PC received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of PC. PC, which is part of Ohio's education program, is independent of any school district. PC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PC.

PC was approved for operation as Parma Community School under a contract between the Governing Authority of PC and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2000. On October 16, 2003 Lucas County Educational Service Center (LCESC) replaced the Ohio Department of Education. 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 ESCLEW will provide sponsorship services for a fee. See Note XV for further discussion of the sponsor services.

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

PC operates under a five member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls the instructional facilities for PC, which is staffed by ninety two certificated full time personnel and seventeen support staff who provided services to 1,021 students. During 2013, the board members for PC also serve as the board for Constellation Schools: Lorain Community Elementary, Constellation Schools: Lorain Community Middle and Constellation Schools: Elyria Community.

II. Summary of Significant Accounting Policies

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

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net 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. PC prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which PC receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which PC must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to PC on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Change in Accounting Principles

For 2013, PC 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 PC's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

Monies due PC 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 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

8. Intergovernmental Revenues

PC 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. PC 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 $7,400,844.

9. Private Grants and Contributions

PC received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2013 school year totaled $23,347.

10. Compensated Absences

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

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

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.

12. Deferred Revenue

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

13. Deferred Charges

Deferred charges have been recorded on the Statement of Net Position to recognize financing fees related to the bond financing arrangement discussed in Note IX. 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, 2013, the carrying amount of PC's deposits totaled $1,134,665 and its bank balance was $1,198,968. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2013, $698,968 of the bank balance was exposed to custodial risk as discussed below, while $500,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of PC and the Industrial Development Authority of the County of Pima, Arizona totaled $1,229,728 at fiscal year end June 30, 2013. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

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

IV. Purchased Services

Purchased Services include the following:

Instruction	$213,169
Pupil Support Services	385,880
Staff Development & Support	56,333
Administrative	935,008
Occupancy Costs	273,560
Transportation	8,917
Food Services	150,770
Student Activities	3,674
Total Purchased Services	$2,027,311

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	$483,200	$0	$0	$483,200
Construction in Process	0	262,747	0	262,747
Total Capital Assets Not Being Depreciated:	483,200	262,747	0	745,947
Capital Assets Being Depreciated:				
Building	2,223,971	0	0	2,223,971
Building Improvements	1,571,947	20,842	0	1,592,789
Technology and Software	253,058	65,900	(112,527)	206,430
Furniture and Equipment	177,115	7,506	(31,514)	153,108
Total Capital Assets Being Depreciated	4,226,091	94,248	(144,041)	4,176,298
Less Accumulated Depreciated:				
Building	(356,768)	(55,600)	0	(412,368)
Building Improvements	(183,262)	(57,572)	0	(240,834)
Technology and Software	(150,765)	(32,066)	86,081	(96,750)
Furniture and Equipment	(66,535)	(14,954)	13,295	(68,194)
Total Accumulated Depreciation	(757,330)	(160,192)	99,376	(818,146)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	3,468,761	(65,944)	(44,665)	3,358,152
Total Capital Assets, Net of Accumulated Depreciation	$3,951,961	$196,803	($44,665)	$4,104,099

VI. Capital Equipment Lease Payable

During fiscal year 2012, PC 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 $79,640 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 $18,323 and interest paid totaled $4,731. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2014	$19,722	$3,331	$23,053
2015	21,227	1,826	23,053
2016	13,123	326	13,449
Total	$54,072	$5,483	$59,555

VII. Day Drive School Building Purchase

On November 28, 2003, PC purchased the building it occupied at 7667 Day Drive, Parma. The purchase price of $1,200,000 and other purchase costs totaling $7,172 have been capitalized and are being depreciated over a forty year period. During 2013 grades Kindergarten through 3 were located at this site.
In order to finance a multi-million dollar expansion project, PC sold the building and land which it occupies to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing arrangement. PC leases the property from IDA under a capitalized lease arrangement (see Note IX). The original purchase price, other purchase costs and building improvements continue to be recognized as capital assets and are being depreciated over their remaining useful life. Loan fees, previously capitalized under the original mortgage, have been expensed net of accumulated depreciation.

VIII. West 54th Street Building

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

IX. Capital Lease Bond Notes Payable

On January 23, 2008 PC closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the Day Drive property owned by PC and the West 54th Street property owned by Constellation Schools (CS) for the remaining mortgage balances carried by PC and CS at the time. In addition IDA is financing substantial building renovations at the West 54th Street property to meet increasing demand for enrollment. Both properties are leased back to PC through annual lease renewals through January 2038. IDA secured mortgages on the land, building and improvements from Wells Fargo Bank, National Association which was transferred to US Bank, National Association in August 2008. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2013 is $5,212,434 and interest payable due July 1, 2013 is $180,843. Interest expense during 2013 totaled $363,867. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/12	Additions	Deletions	6/30/13	Due In One Year
Lease Revenue Bonds	$5,280,890	$0	$68,456	$5,212,434	$72,802

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during fiscal year 2009 and Construction in Progress totaling $1,231,244 was transferred to the building improvements capital account. Issuance costs, finance fees and underwriters discount totaling $550,377 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2013 was $100,902.
The Bond Indenture requires PC to meet certain covenants. As of June 30, 2013 PC is in compliance with those covenants.

As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee and subsequently transferred to US Bank, N. A. Payments for construction and financing activities have been paid from these accounts through June 30, 2013. Lease payments were made by PC to cover bond interest and administrative fees due in July 2013 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 2013 to fund interest, reserves and bond expenses totaled $484,671.

The balances of escrow and reserve accounts as of June 30, 2013 are as follows:

Bond Fund	$217,245
Expense Fund	7,606
Total Bond Escrow Accounts	$224,851

Reserve Fund	$534,501
Supplemental Reserve	173,963
Operating Reserve	296,413
Total Bond Reserve Accounts	$1,004,877

The assets refinanced and acquired through the capital lease as of June 30, 2013 are as follows:

Land	$483,200
Building	2,223,971
Building Improvements	1,576,947
Bond Finance Fees	550,377
Sub-Total	4,834,495
Accumulated Depreciation/Amortization	(754,105)
Net Book Value	$4,080,390

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

Year	Principal	Interest	Total
2014	$72,802	$361,685	$434,487
2015	77,149	357,044	434,193
2016	81,495	353,046	434,541
2017	86,928	346,931	433,859
2018	92,361	341,389	433,750
2019 - 2023	565,034	1,303,538	1,868,572
2024 - 2028	791,047	1,379,540	2,170,587
2029 - 2033	1,110,508	1,060,992	2,171,500
2034 - 2038	2,335,110	614,278	2,949,388
Total	$5,212,434	$6,118,443	$11,330,877

X. Construction Loan

On May 20, 2013, a bridge loan was secured with CF Bank to construct a six room addition on the West 54th Street building (see Note XVII). The note is for a term of 2 years with interest at 3.75% per annum. Interest is paid monthly with the full principal balance due upon maturity of the note on May 20, 2015. Collateral in the form of a cash money market account was provided by the school which along with interest earned is disclosed in the financial statements as Cash-Restricted. As of June 30, 2013 $261,774 of the bank loan had been drawn.

XI. Risk Management

1. Property and Liability Insurance

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

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

2. Workers' Compensation

PC makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by PC employees with the Ohio Worker's Compensation System between January 1, 2008 and June 30, 2013.

3. Employee Medical, Dental, Vision and Life Benefits

PC 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 PC for the fiscal year is $454,801.

XII. Defined Benefit Pension Plans

1. State Teachers Retirement System

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

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

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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

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

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

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%.

PC's required contributions for pension obligations for the fiscal years ended June 30, 2013, 2012 and 2011 were $423,179, $415,489 and $368,921 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.

2. School Employees Retirement System

PC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and PC is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 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. PC's contributions to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were $37,024, $31,748 and $27,658, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

XIII. 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, 2013, 2012 and 2011 PC's contributions to post-employment health care were $32,552, $31,961 and $28,378, 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 PC contributions to Medicare Part B were $1,957, $1,723 and $1,501, 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 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 PC contributions to the Health Care Plan, including the surcharge were $7,273, $6,669 and $5,810, respectively; 36.36% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011. $4,628 representing the unpaid surcharge due for fiscal year 2013 is recorded as a liability within the respective funds.

XIV. Contingencies

1. Grants

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

XV. Sponsorship and Management Agreements

PC entered into an agreement with the ESC of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2019. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2013 Foundation payments received by PC, from the State of Ohio. The total amount due from PC for fiscal year 2013 was $98,365 all of which was paid prior to June 30, 2013.

PC 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, 2012. Management fees are calculated as 6.25% of the Fiscal Year 2013 Foundation and State Fiscal Stabilization Funds payment received by PC from the State of Ohio plus a fixed fee of $375,375. The total fee cannot exceed twice the fixed fee. The total amount due from PC for the fiscal year ending June 30, 2013 was $750,224 all of which was paid prior to June 30, 2013.

XVI. Restricted for Debt Purposes, Net of Related Debt

Restricted for Debt Purposes, net of related debt represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Project Fund, which was included in Escrow Accounts, was being held for construction purposes and was liquidated during the fiscal year. The Bond Fund and the Expense Fund, which are included in Escrow Accounts, along with the Bond Reserve Accounts, which are being held for bond financing reserve requirements, will be funded until January 1, 2038.

XVII. Subsequent Event

On May 20, 2013, PC obtained a bridge loan with CF Bank to construct a six room addition on the West 54^{th} Street building (see Note X). Construction was completed during the summer of 2013 with the final draw disbursed on August 22, 2013. The total amount borrowed is $677,605.

On October 15, 2013 PC obtained a loan to purchase technology equipment. The principal amount of the loan is $29,515 with a term of four years and an interest rate of 3.99%.

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November 19, 2013

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

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: Parma Community, Cuyahoga 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

Rea & associates a brighter way

November 19, 2013

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

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

Report on Compliance for Each Major Federal Program

We have audited the Constellation Schools: Parma Community, Cuyahoga County, Ohio (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

CONSTELLATION SCHOOLS: PARMA COMMUNITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Cash Receipts	Cash Disbursements
U. S. Department of Education				
Passed Through Ohio Department of Education:				
Title I	84.010	2013	$ 410,463	$ 409,053
IDEA Part B	84.027	2013	196,991	194,648
Education Technology	84.318	2012	1,688	0
Improving Teacher Quality	84.367	2013	9,093	9,093
ARRA - Race to the Top	84.395	2013	30,473	33,323
Total U.S. Department of Education			648,708	646,117
U. S. Department of Agriculture				
Passed Through the Ohio Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program (B)	10.553	2013	40,209	39,235
National School Lunch Program (B)	10.555	2013	119,862	116,960
Total Child Nutrition Cluster			160,071	156,195
Total U.S. Department of Agriculture			160,071	156,195
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 808,779	$ 802,312

See the Notes to the Schedule of Expenditures of Federal Awards.

(A) The accompanying schedule of expenditures of federal awards includes the federal grant activity of Constellation Schools: Parma Community and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY, OHIO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2013

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I	CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

November 19, 2013

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

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: Parma Community School (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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CONSTELLATION SCHOOLS: PARMA COMMUNITY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 24, 2013

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