

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

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2015**



**Constellation Schools**

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





# Dave Yost • Auditor of State

Board of Trustees  
Constellation Schools: Lorain Community Elementary  
1110 West 4th Street  
Lorain, OH 44052

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Lorain Community Elementary, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. 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: Lorain Community Elementary is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

January 25, 2016

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

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December 10, 2015

To the Board of Trustees  
Constellation Schools: Lorain Community Elementary  
Lorain County, Ohio  
1110 West 4<sup>th</sup> Street  
Lorain, OH 44052

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Constellation Schools: Lorain Community Elementary, Lorain County, Ohio (the "School") as of and for the year ended June 30, 2015, 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 entity'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 entity'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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2015, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As described in Note II.3, the School restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*." Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School's Contributions* on pages 5–11, 39, and 40-41, respectively, 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 December 10, 2015 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.*

Cambridge, Ohio

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# **CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY**

## **Management's Discussion and Analysis**

For the Year Ended June 30, 2015

The discussion and analysis of Constellation Schools: Lorain Community Elementary (LCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the financial performance of LCE 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 LCE.

### **Financial Highlights**

Key financial highlights for 2015 include the following:

- In total, net position increased \$89,366, which represents a 6.6% increase from 2014. This increase is due primarily to minor increases in assets along with significant reductions in liabilities the most significant being net pension liability.
- Total assets and deferred outflow of resources increased \$11,823, which represents a 0.6% increase from 2014. This is due to an increase in deferred outflow of resources offset by minor decreases in cash, accounts receivable and capitalized assets.
- Liabilities and deferred inflows of resources decreased \$77,543, which represents a 2.3% decrease from 2014. A decrease in net lease payables and net pension liability was mostly offset by an increase in deferred inflow of resources.
- Operating revenues decreased by \$83,741, which represents a 4.5% decrease from 2014. This is a direct result of slightly decreased enrollment, materials fees, service income from other schools and miscellaneous income.
- Expenses decreased by \$22,610 which represents a 1.1% decrease from 2014. Operating decreases are due to careful budget management which resulted in increases in salaries and benefits with decreases in change in net pension liability expenses, supplies, interest and facility expenses. Increases occurred in technology purchases during the year.
- Non-operating revenues increased by \$6,674 which represents a 2.1% increase from 2014. This increase is due to increases in federal funding.
- During 2015, LCE implemented GASB 68, which requires changes in the manner for which pension expenses and liabilities are reported. Net Position balances for 2014 were restated and pension expenses during 2015 were reduced.

### **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: LORAIN COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2015

### Statement of Net Position

The Statement of Net Position looks at how well LCE has performed financially through June 30, 2015. This statement includes all of the assets, deferred outflow of resources, liabilities, deferred inflows of resources 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, 2015 and 2014 for LCE.

	<b>2015</b>	<b>Restated 2014</b>	<b>Change</b>	<b>%</b>
<b>Assets</b>				
Cash	\$560,566	\$565,511	(\$4,945)	-0.9%
Other Current Assets	25,972	26,137	(165)	-0.6%
Non-Current Assets	28,042	28,042	0	0.0%
Capital Assets	1,289,552	1,300,133	(10,581)	-0.8%
Deferred Outflow of Resources	140,637	113,123	27,514	24.3%
<b>Total Assets and Deferred Outflow of Resources</b>	<b>2,044,769</b>	<b>2,032,946</b>	<b>11,823</b>	<b>0.6%</b>
<b>Liabilities</b>				
Current Liabilities	870,641	94,908	775,733	817.4%
Long-Term Liabilities	2,062,953	3,291,415	(1,228,462)	-37.3%
Deferred Inflow of Resources	375,186	0	375,186	100.0%
<b>Total Liabilities and Deferred Inflow of Resources</b>	<b>3,308,780</b>	<b>3,386,323</b>	<b>(77,543)</b>	<b>-2.3%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	424,100	361,086	63,014	17.5%
Unrestricted	(1,688,111)	(1,714,463)	26,352	1.5%
<b>Total Net Position</b>	<b>(\$1,264,011)</b>	<b>(\$1,353,377)</b>	<b>\$89,366</b>	<b>6.6%</b>

Net Position increased \$89,366, due primarily to reductions in long term abilities as well as reduced expenditures partially offset by reduced revenues. For assets, cash decreased \$4,945; accounts receivable decreased \$7; due from other governments decreased \$158; deferred outflow of resources increased \$27,514 and net capital assets decreased \$10,581 from 2014. For liabilities, accounts payable increased \$8,336, interest payable decreased \$160, due to other governments increased \$1,880; unearned revenue decreased \$435, capital equipment lease payable decreased \$28,254; mortgage notes payable decreased \$45,340; net pension liability decreased \$388,756 and deferred outflow of resources increased \$375,186 from 2014.

# CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2015

### 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, 2015.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for LCE for fiscal years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>%</u>
<b>Revenues</b>				
Foundation and Poverty Based Assistance Revenues	\$1,644,714	\$1,699,035	(\$54,321)	-3.2%
Other Operating Revenues	147,561	176,981	(29,420)	-16.6%
Total Operating Revenues	<u>1,792,275</u>	<u>1,876,016</u>	<u>(83,741)</u>	<u>-4.5%</u>
Interest Income	62	0	62	100.0%
Federal and State Grants	<u>322,683</u>	<u>316,071</u>	<u>6,612</u>	<u>2.1%</u>
Total Non-Operating Revenues	<u>322,745</u>	<u>316,071</u>	<u>6,674</u>	<u>2.1%</u>
Total Revenues	<u>2,115,020</u>	<u>2,192,087</u>	<u>(77,067)</u>	<u>-3.5%</u>
<b>Expenses</b>				
Salaries	867,905	859,292	8,613	1.0%
Fringe Benefits	293,271	269,827	23,444	8.7%
Change in Net Pension Liability	(41,084)	0	(41,084)	100.0%
Purchased Services	667,546	668,138	(592)	-0.1%
Materials and Supplies	89,330	94,260	(4,930)	-5.2%
Capital Outlay	23,957	11,550	12,407	107.4%
Depreciation	69,404	61,906	7,498	12.1%
Other Expenses	<u>55,325</u>	<u>83,291</u>	<u>(27,966)</u>	<u>-33.6%</u>
Total Expenses	<u>2,025,654</u>	<u>2,048,264</u>	<u>(22,610)</u>	<u>-1.1%</u>
Changes in Net Position	<u>\$89,366</u>	<u>\$143,823</u>	<u>(\$54,457)</u>	<u>-37.9%</u>

Net Position increased in both fiscal years ending June 30, 2015 and 2014. This is due to enrollment changes offset by operating expense changes in both years plus changes in pension liability in 2015. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease other costs remain fixed such as facilities costs resulting in more efficient operations.

## CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY

### Management's Discussion and Analysis

For the Year Ended June 30, 2015

Overall, revenues decreased by \$77,067 from 2014 to 2015. The most significant changes in revenues from 2014 to 2015 are decreases of \$54,321 in Foundation and Poverty Based Assistance funding due to a slight enrollment decrease, decreased collection of materials fees totaling \$3,410, decreased services revenues of \$15,873, and a decrease in other expenses which totaled \$3,109. Increases occurred in federal grant collection which increased \$6,188 and refunds of prior years' expenses.

Expenses decreased slightly \$22,610 from 2014 mostly as a result of changes in net pension liability partially offset by slight increases in operating expenses. Salaries and Fringe Benefits increased \$32,057 due to regular annual increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68. Purchased services decreased \$592 due to decreases in student services, data management services, administrative fees, facility costs and food services with an increase in professional development. Materials and Supplies decreased \$4,930 due to decreases in instructional supplies, textbook and facility supply purchases. Capital Outlay increased \$12,407 due to facility improvements. Depreciation increased \$7,498 because of technology equipment acquired through a capitalized lease initiated during the year. Other Expenses decreased \$27,966 from decreased interest and other facility expenses.

### Capital Assets

As of June 30, 2015, LCE had \$1,289,552 invested in land, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a \$10,581 decrease from June 30, 2014.

The following schedule provides a summary of Capital Assets as of June 30, 2015 and 2014 for LCE.

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>%</u>
<b>Capital Assets (net of depreciation)</b>				
Land	\$16,330	\$16,330	\$0	0.0%
Building	209,489	215,151	(5,662)	-2.6%
Building Improvements	979,276	963,919	15,357	1.6%
Technology and Software	74,728	95,778	(21,050)	-22.0%
Furniture and Equipment	<u>9,729</u>	<u>8,955</u>	<u>774</u>	<u>8.6%</u>
Net Capital Assets	<u>\$1,289,552</u>	<u>\$1,300,133</u>	<u>(\$10,581)</u>	<u>-0.8%</u>

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

## **CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY**

### **Management's Discussion and Analysis For the Year Ended June 30, 2015**

#### **Debt Service**

On August 10, 2011 LCE purchased the former Irving School from the Lorain City School District with plans to renovate the building for use beginning in August 2012. The building was purchased with available cash and a mortgage loan in the amount of \$892,500 was secured from US Bank to carry out the renovations and repairs. The note is for a term of three years with an interest rate of 4.16 percent per annum and a balloon payment due at the end of the term in July 2015 which was extended after the end of the current fiscal year. The outstanding principal balance as of June 30, 2015 is \$809,005.

#### **Equipment Financing**

During fiscal year 2013, LCE entered into a lease agreement with Winthrop Resources Corporation for \$108,735 worth of technology equipment. The lease term is for a total of 36 months and will expire in October 2016.

In February of 2014 PC entered into a group leasing agreement with Celtic Leasing to lease technology equipment. The lease, which closed March 1, 2015 with a balance for PC of \$8,499 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 44 months and will expire in November 2018.

The lease values have been recorded as capital equipment to recognize the assets, and as capital equipment lease payables to recognize the lease debt. The outstanding principal value as of June 30, 2015 on the leases payable is \$56,447.

#### **Net Pension Liabilities**

During 2015, LCE adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of LCE's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

## CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY

### Management's Discussion and Analysis For the Year Ended June 30, 2015

Under the new standards required by GASB 68, the net pension liability equals LCE's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, LCE is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, LCE's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, LCE is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$967,398 to (\$1,353,377).



## CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY

### Management's Discussion and Analysis

For the Year Ended June 30, 2015

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$113,123 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required plan contributions. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$80,020. Consequently, in order to compare 2015 total program expense to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$1,990,297
Pension expense under GASB 68	(80,020)
2015 contractually required contribution	<u>121,104</u>
Adjusted 2015 program expenses	2,031,381
Total 2014 program expenses under GASB 27	<u>2,011,072</u>
Increase in program expenses not related pension	<u><u>\$20,309</u></u>

### Current Financial Issues

Constellation Schools: Lorain Community Elementary opened in the fall of 2001 and has grown from 88 students, nine teaching staff members and expenses of \$598,301 to a total of 216 students, 21 teaching staff members and expenses of \$2,025,654. On January 2, 2006, grades 5 through 8 were split off from LCE to form Lorain Community Middle School to provide more flexibility in the curriculum for each student and to improve options for limited facilities space. In August 2011 LCE purchased the building it now occupies from the Lorain City School District. LCE and Constellation Schools: Lorain Community Middle, which leases space in the building, moved into the school building in August 2012.

The Board of Directors, school management and school staff continue to work diligently to ensure that LCE maintains the highest level of educational services and financial integrity that we have always provided. Our goal continues to be providing 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 LCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, M.A., CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Lorain Community Elementary**  
**Lorain County, Ohio**  
**Statement of Net Position**  
**As of June 30, 2015**

**Assets:**

**Current Assets:**

Cash	\$560,566
Due from Other Governments	18,118
Accounts Receivable	7,854
<i>Total Current Assets</i>	586,538

**Non-Current Assets:**

Security Deposits	28,042
Non-Depreciable Capital Assets	16,330
Capital Assets (Net of Accumulated Depreciation)	1,273,222
<i>Total Non-Current Assets</i>	1,317,594

<i>Total Assets</i>	1,904,132
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**Deferred Outflow of Resources:**

Pension (STRS & SERS)	140,637
<i>Total Deferred Outflow of Resources</i>	140,637

<i>Total Assets and Deferred Outflow of Resources</i>	2,044,769
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**Liabilities:**

**Current Liabilities:**

Accounts Payable	17,475
Interest Payable	2,835
Due to Other Governments	1,880
Unearned Revenue	810
Capital Lease Equipment Payable	38,636
Mortgage Notes Payable	809,005
<i>Total Current Liabilities</i>	870,641

**Long Term Liabilities:**

Capital Lease Equipment Payable	17,811
Net Pension Liability	2,045,142
<i>Total Long Term Liabilities</i>	2,062,953

<i>Total Liabilities</i>	2,933,594
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**Deferred Inflow of Resources:**

Pension (STRS & SERS)	375,186
<i>Total Deferred Inflow of Resources</i>	375,186

<i>Total Liabilities and Deferred Inflow of Resources</i>	3,308,780
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**Net Position:**

Net Investment in Capital Assets	424,100
Unrestricted	(1,688,111)
<i>Total Net Position</i>	(\$1,264,011)

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

**Constellation Schools: Lorain Community Elementary**  
**Lorain County, Ohio**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$1,644,714
Other Operating Revenues	147,561
<i>Total Operating Revenues</i>	<u>1,792,275</u>

**Operating Expenses:**

Salaries	867,905
Fringe Benefits	293,271
Change in Net Pension Liability	(41,084)
Purchased Services	667,546
Materials and Supplies	89,330
Capital Outlay	23,957
Depreciation	69,404
Other Operating Expenses	19,968
<i>Total Operating Expenses</i>	<u>1,990,297</u>

Operating Loss	<u>(198,022)</u>
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**Non-Operating Revenues & (Expenses):**

Interest Income	62
Interest Expense	(35,357)
Federal and State Grants	322,683
<i>Total Non-Operating Revenues &amp; (Expenses)</i>	<u>287,388</u>

Change in Net Position	<u>89,366</u>
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Net Position at Beginning of the Year - Restated (See Note II.3.)	<u>(1,353,377)</u>
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Net Position at End of Year	<u><u>(\$1,264,011)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Lorain Community Elementary**  
**Lorain County, Ohio**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$1,640,315
Cash Payments to Suppliers for Goods and Services	(1,084,738)
Cash Payments to Employees for Services	(867,905)
Other Operating Revenues	147,126
Net Cash Used for Operating Activities	<u>(165,202)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants	<u>328,129</u>
Net Cash Provided by Noncapital Financing Activities	<u>328,129</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	(50,324)
Equipment Lease Principal Payments	(36,753)
Equipment Lease Interest Payments	(350)
Mortgage Loan Principal Payments	(45,340)
Mortgage Loan Interest Payments	(35,167)
Net Cash Used for Capital and Related Financing Activities	<u>(167,934)</u>

**Cash Flows from Investing Activities**

Interest	<u>62</u>
Net Cash Provided by Investing Activities	<u>62</u>

Net Decrease in Cash	(4,945)
Cash at Beginning of Year	<u>565,511</u>
Cash at End of Year	<u><u>\$560,566</u></u>

Non Cash Transaction: At June 30, 2015 the school purchased \$8,499 in capital assets on account.

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

**Constellation Schools: Lorain Community Elementary**  
**Lorain County, Ohio**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**  
**(Continued)**

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

Operating Loss	(\$198,022)
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**Adjustments to Reconcile Operating Loss to**  
**Net Cash Used for Operating Activities:**

Depreciation	69,404
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**Changes in Assets, Deferred Outflow of Resources,**  
**Liabilities and Deferred Inflow of Resources:**

Decrease in Accounts Receivable	7
(Increase) in Due from Other Governments	(5,288)
(Increase) in Deferred Outflows - Pensions	(27,514)
Increase in Accounts Payable	8,336
Increase in Due to Other Governments	1,880
(Decrease) in Unearned Revenue	(435)
(Decrease) in Net Pension Liability	(388,756)
Increase in Deferred Inflows - Pensions	375,186

Total Adjustments	32,820
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Net Cash Used for Operating Activities	(\$165,202)
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The accompanying notes to the financial statements are an integral part of this statement.

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**I. Description of the School and Reporting Entity**

Constellation Schools: Lorain Community Elementary (LCE) 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 28, 2001, LCE 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 LCE. LCE, which is part of Ohio's education program, is independent of any school district. LCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of LCE.

LCE was approved for operation under a contract between the Governing Authority of LCE 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 LCE 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, 2022. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIV for further discussion of the sponsor services.

LCE 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.

LCE 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 LCE's instructional facility staffed by 21 certificated full time teaching personnel and 4 support staff who provide services to 216 students. During 2015, the board members for LCE also serve as the board for Constellation Schools: Old Brooklyn Community Elementary Constellation Schools: Parma Community and Constellation Schools: Elyria Community.

**II. Summary of Significant Accounting Policies**

The financial statements of LCE 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 LCE's accounting policies are described below.

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**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, deferred outflow of resources and all liabilities and deferred inflows of resources 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. LCE 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 LCE 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 LCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to LCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Change in Accounting Principles**

For the fiscal year ended June 30, 2015, LCE has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.



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GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of LCE.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position Previously Reported as of June 30, 2014	\$967,398
Addition of Net Pension Liability	(2,433,898)
Addition of Deferred Outflow of Resources - Pension	<u>113,123</u>
Restated Net Position at July 1, 2014	<u>(\$1,353,377)</u>

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**4. Cash**

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

**5. Budgetary Process**

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

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**6. Due From Other Governments**

Monies due LCE for the year ended June 30, 2015 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:

<b>Capital Asset Classification</b>	<b>Years</b>
Building	40
Building Improvements	10 to 40
Technology and Software	3 to 5
Furniture and Equipment	10

**8. Intergovernmental Revenues**

LCE 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. LCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2015 school year totaled \$1,967,397.

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**9. Private Grants and Contributions**

LCE 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. LCE did not receive any grants and contributions for the 2015 school year.

**10. Compensated Absences**

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**12. 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.

**13. Unearned Revenue**

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

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**14. Deferred Outflows of Resources and Deferred Inflows of Resources**

A deferred outflow of resources is a consumption of assets by LCE that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then.

A deferred inflow of resources is an acquisition of assets by LCE that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time.

During 2015, LCE implemented GASB 68 which requires recognition of the entire net pension liability along with a more comprehensive measure of pension activity during the year. The financial statements for 2015 include deferred outflow of resources, deferred inflows or resources, pension expenses and net pension liability

**III. Deposits**

At fiscal year end June 30, 2015, the carrying amount of LCE's deposits totaled \$560,566 and its bank balance was \$578,124. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2015, \$328,124 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, LCE 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 LCE.

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**IV. Capital Assets**

A summary of capital assets at June 30, 2015 follows:

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Capital Assets Not Being Depreciated:				
Land	\$16,330	\$0	\$0	\$16,330
Capital Assets Being Depreciated:				
Building	226,475	0	0	226,475
Building Improvements	1,052,316	43,371	0	1,095,687
Technology and Software	169,773	12,892	(19,552)	163,113
Furniture and Equipment	49,019	2,560	(30,500)	21,079
Total Capital Assets Being Depreciated	1,497,583	58,823	(50,052)	1,506,354
Less Accumulated Depreciation:				
Building	(11,324)	(5,662)	0	(16,986)
Building Improvements	(88,397)	(28,014)	0	(116,411)
Technology and Software	(73,995)	(33,942)	19,552	(88,385)
Furniture and Equipment	(40,064)	(1,786)	30,500	(11,350)
Total Accumulated Depreciation	(213,780)	(69,404)	50,052	(233,132)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	1,283,803	(10,581)	0	1,273,222
Total Capital Assets, Net of Accumulated Depreciation	\$1,300,133	(\$10,581)	\$0	\$1,289,552

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**V. Purchased Services**

Purchased Services include the following:

Instruction	\$44,956
Pupil Support Services	107,377
Staff Development & Support	42,730
Administrative	251,514
Occupancy Costs	136,777
Food Services	83,660
Student Activities	<u>532</u>
 Total Purchased Services	 <u><u>\$667,546</u></u>

**VI. Capital Equipment Lease Payable**

On September 30, 2013, LCE entered into a three year lease for technology equipment. During fiscal year 2015, LCE entered into a 44 month lease for additional technology equipment with Celtic Leasing. These leases meet the criteria of capital leases 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 \$117,234 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 2015 totaled \$36,753 and interest paid at a rate of 0.50% totaled \$350.

Future minimum lease payments for principal and interest under both capital leases are as follows:

Year	Winthrop			Celtic		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$36,356	\$147	\$36,503	\$2,280	\$120	\$2,400
2017	12,155	13	12,168	2,320	80	2,400
2018	0	0	0	2,360	40	2,400
2019	<u>0</u>	<u>0</u>	<u>0</u>	<u>976</u>	<u>4</u>	<u>980</u>
Total	<u><u>\$48,511</u></u>	<u><u>\$160</u></u>	<u><u>\$48,671</u></u>	<u><u>\$7,936</u></u>	<u><u>\$244</u></u>	<u><u>\$8,180</u></u>

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**VII. Irving School Building Purchase**

On August 10, 2011 LCE purchased the former Irving School located at 1110 West 4<sup>th</sup> Street, Lorain from the Lorain City School District. The purchase price of \$240,000 along with other purchase costs totaling \$2,805, 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 July 12, 2012, LCE entered into a mortgage loan agreement relating to the renovation of the property at 1110 West 4<sup>th</sup> Street, Lorain (see Note VII). A mortgage note in the amount of \$892,500 is held by US Bank. The note is for a term of three years with an interest rate of 4.16 percent per annum and a balloon payment due at the end of the term in July 2015. The loan was subsequently extended by US Bank (see note XV on subsequent events). During fiscal year 2015 principal was reduced by \$45,340 and interest payments totaled \$35,167. As of June 30, 2015 the outstanding principal balance is \$809,005 and interest payable totaling \$2,805 has been recorded as a current liability. Principal and interest due on the outstanding mortgage note is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>\$809,005</u>	<u>\$2,805</u>	<u>\$811,810</u>
Total	<u><u>\$809,005</u></u>	<u><u>\$2,805</u></u>	<u><u>\$811,810</u></u>

**IX. Sub Lease**

LCE leases space to Constellation Schools: Lorain Community Middle (LCM). Under the terms of the lease LCM made monthly lease payments of \$6,000. LCE charged LCM a total of \$72,000 during the year. As of June 30, 2015 all lease payments were collected from LCM.

**X. Risk Management**

**1. Property and Liability Insurance**

LCE 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 2015, LCE contracted with Traveler's Property Casualty Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile 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**

LCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by LCE employees with the Ohio Worker's Compensation System between January 1, 2010 and June 30, 2015.

**3. Employee Medical, Dental, Vision and Life Benefits**

LCE 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 LCE for the fiscal year is \$150,027.

**XI. Defined Benefit Pension Plans**

**1. Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents LCE's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.



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Ohio Revised Code limits LCE's obligation for this liability to annually required payments. LCE cannot control benefit terms or the manner in which pensions are financed; however, LCE does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

**2. Plan Description - School Employees Retirement System (SERS)**

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and LCE is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

LCE's contractually required contribution to SERS was \$12,156 for fiscal year 2015.

**3. Plan Description - State Teachers Retirement System (STRS)**

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth

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anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was

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increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. LCE was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

LCE's contractually required contribution to STRS was \$108,948 for fiscal year 2015.

**4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. LCE's proportion of the net pension liability was based on LCE's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 1,905,359	\$ 139,783	\$ 2,045,142
Proportion of the Net Pension Liability	0.00783342%	0.00276200%	
Pension Expense	\$ 71,117	\$ 8,903	\$ 80,020

At June 30, 2015, LCE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 18,343	\$ 1,190	\$ 19,533
School contributions subsequent to the measurement date	<u>108,948</u>	<u>12,156</u>	<u>121,104</u>
Total Deferred Outflows of Resources	<u>\$ 127,291</u>	<u>\$ 13,346</u>	<u>\$ 140,637</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 352,499</u>	<u>\$ 22,687</u>	<u>\$ 375,186</u>

\$121,104 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and

**CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY**  
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**Lorain County, Ohio**

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deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2016	\$ (83,539)	\$ (5,374)	\$ (88,913)
2017	(83,539)	(5,374)	(88,913)
2018	(83,539)	(5,374)	(88,913)
2019	(83,539)	(5,375)	(88,914)
	\$ (334,156)	\$ (21,497)	\$ (355,653)

**5. Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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***Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 199,429	\$ 139,783	\$ 89,616

**6. Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents LCE's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what LCE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's proportionate share of the net pension liability	\$ 2,727,729	\$ 1,905,359	\$ 1,209,910



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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**XII. Post-Employment Benefits**

**1. School Employees Retirement System**

Health Care Plan Description - LCE contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

LCE's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$2,175, \$1,531 and \$1,419, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**CONSTELLATION SCHOOLS: LORAIN COMMUNITY ELEMENTARY**

**- A Community School -  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**2. State Teachers Retirement System**

Plan Description – LCE participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. LCE's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$7,789 and \$6,906, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**XIII. Contingencies**

**1. Grants**

LCE 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 LCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LCE at June 30, 2015.

**2. Enrollment FTE**

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school; therefore, the financial statement impact is not determinable at this time.

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**- A Community School -  
Lorain County, Ohio**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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ODE and management believe this will result in either a receivable to or a liability of LCE.

**XIV. Sponsorship and Management Agreements**

LCE 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, 2022. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2015 Foundation payments received by EC, from the State of Ohio. The total amount due from LCE for fiscal year 2015 was \$24,162 all of which was paid prior to June 30, 2015.

LCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2015. The agreement was for a period of one year, effective July 1, 2014. Management fees are calculated as 6.25% of the Fiscal Year 2015 Foundation payments received by LCE from the State of Ohio plus a fixed fee of \$115,500. The total amount due from LCE for the fiscal year ending June 30, 2015 was \$217,389 all of which was paid prior to June 30, 2015.

**XV. Subsequent Events**

During the summer of 2015 Constellation Schools embarked on an initiative to provide each student from grades two and up a laptop to be used for educational purposes. A total of 4,080 laptops were acquired through a lease with Winthrop Leasing in partnership with CF Bank. Each school will be charged a lease amount equal to the number of computers provided to their students during the fall of 2015.

A mortgage note in the amount of \$892,500 from LCE in favor of US Bank was due to end in July 2015 with a balloon payment. Subsequent to the period of this report the loan was amended and restated by US Bank. The amended, restated note is in the amount of \$805,194.50, carries an interest rate of 4.6% per annum and is for a five year period beginning October 1, 2015. Monthly payments are \$6,687.30 and a balloon payment for the outstanding principal balance plus unpaid interest is due October 1, 2020.

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**Constellation Schools: Lorain Community Elementary**  
**Lorain County, Ohio**  
 Required Supplementary Information  
 Schedule of the School's Proportionate Share of the Net Pension Liability  
 Last Two Fiscal Years (1)

	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>		
School's proportion of the net pension liability (asset)	0.00783342%	0.00783342%
School's proportionate share of the net pension liability (asset)	\$1,905,359	\$2,269,651
School's covered-employee payroll	\$778,869	\$690,608
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	244.63%	328.65%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>		
School's proportion of the net pension liability (asset)	0.00276200%	0.00276200%
School's proportionate share of the net pension liability (asset)	\$139,783	\$164,247
School's covered-employee payroll	\$85,642	\$79,371
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	163.22%	206.93%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**Constellation Schools: Lorain Community Elementary**  
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 Required Supplementary Information  
 Schedule of the School's Contributions  
 Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$108,948	\$101,253	\$89,779	\$81,497
Contributions in Relation to the Contractually Required Contribution	<u>(108,948)</u>	<u>(101,253)</u>	<u>(89,779)</u>	<u>(81,497)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's covered-employee payroll	\$778,200	\$778,869	\$690,608	\$626,900
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%
<b><i>School Employees Retirement System (SERS)</i></b>				
Contractually required contribution	\$12,156	\$11,870	\$10,985	\$12,577
Contributions in relation to the contractually required contribution	<u>(12,156)</u>	<u>(11,870)</u>	<u>(10,985)</u>	<u>(12,577)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's covered-employee payroll	\$92,229	\$85,642	\$79,371	\$93,509
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

n/a - Information prior to 2008 is not available.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$79,529	\$75,497	\$72,106	\$72,284	\$68,277	\$74,135
<u>(79,529)</u>	<u>(75,497)</u>	<u>(72,106)</u>	<u>(72,284)</u>	<u>(68,277)</u>	<u>(74,135)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$611,762	\$580,746	\$554,662	\$556,031	\$525,208	\$570,269
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$11,454	\$11,215	\$10,419	\$8,324	n/a	n/a
<u>(11,454)</u>	<u>(11,215)</u>	<u>(10,419)</u>	<u>(8,324)</u>	n/a	n/a
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	n/a	n/a
\$91,122	\$82,829	\$105,884	\$84,766	n/a	n/a
12.57%	13.54%	9.84%	9.82%	n/a	n/a

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December 10, 2015

To the Board of Trustees  
Constellation Schools: Lorain Community Elementary  
Lorain County, Ohio  
1110 West 4<sup>th</sup> Street  
Lorain, OH 44052

**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 Constellation Schools: Lorain Community Elementary, Lorain County, Ohio (the “School”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated December 10, 2015, in which we noted the School restated their June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, “*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*”, and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.”

**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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 from 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Cambridge, Ohio



# Dave Yost • Auditor of State

**LORAIN COMMUNITY ELEMENTARY**

**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  
FEBRUARY 4, 2016**