



Dave Yost • Auditor of State

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Constellation Schools: Parma Community
Cuyahoga County
5730 Broadview Rd
Parma, OH 44134

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Constellation Schools: Parma Community, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2018, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider 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 to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Constellation Schools: Parma Community, Cuyahoga County, Ohio as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note II to the financial statements, during the year ended June 30, 2018, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, schedules of net pension and other postemployment benefit liabilities and pension and other postemployment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

November 21, 2018

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CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

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, 2018. 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 2018 include the following:

- In total, net position increased \$3,958,098, which represents a 30.6% increase from 2017. Increases in revenue and changes in pension and OPEB liabilities were offset by operating expense increases during the year.
- Total assets and deferred outflow of resources decreased \$296,923 which is a 2.1% decrease from 2017. This is due to reductions in cash used to finance leasehold improvements at the Intermediate School and reductions in net capital assets partially offset by an increase in deferred outflow of resources.
- Liabilities and deferred inflow of resources decreased \$4,255,021 which represents a 15.7% decrease from 2017. Decreases in accounts payable, unearned revenues, due to other governments, loan payable, capital leases equipment payable, bonds payable, and net pension and OPEB liability were offset by increases in payroll payable and deferred inflows of resources during the year.
- Operating revenues increased by \$653,032, which represents a 6.3% increase from 2017. This is a direct result of enrollment increases, and increases in casino tax distributions and services provided to other schools from 2017.
- Expenses decreased by \$7,499,870 which represents a 48.2% decrease from 2017. Operating expense increases due to additional staff, student and staff services, and equipment purchases were more than offset by changes in net pension and OPEB liability and reduced purchases of materials and supplies.
- Non-operating revenues increased by \$76,192, which represents a 9.0% increase from 2017. The increase occurred in federal and state grants, interest income and private grants and contributions.

Using this Financial Report

This report consists of four parts: Management's Discussion and Analysis, the Financial Statements, Notes to the Financial Statements and Required Supplemental Information. 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: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

Statement of Net Position

The Statement of Net Position looks at how well PC has performed financially through June 30, 2018. 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, 2018 and 2017 for PC.

	<u>2018</u>	<u>Restated 2017</u>	<u>Change</u>	<u>%</u>
Assets and Deferred Outflow of Resources				
Cash	\$851,345	\$1,304,201	(\$452,856)	-34.7%
Other Current Assets	565,323	604,298	(38,975)	-6.4%
Non-Current Assets	840,597	802,699	37,898	4.7%
Capital Assets, Net	6,473,676	6,738,574	(264,898)	-3.9%
Deferred Outflow of Resources	<u>5,164,145</u>	<u>4,742,237</u>	<u>421,908</u>	<u>8.9%</u>
Total Assets and Deferred Outflow of Resources	<u>13,895,086</u>	<u>14,192,009</u>	<u>(296,923)</u>	<u>-2.1%</u>
Liabilities and Deferred Inflow of Resources				
Current Liabilities	1,150,411	1,198,828	(48,417)	-4.0%
Long-Term Liabilities	21,083,729	25,942,090	(4,858,361)	-18.7%
Deferred Inflow of Resources	<u>651,757</u>	<u>0</u>	<u>651,757</u>	<u>100.0%</u>
Total Liabilities and Deferred Inflow of Resources	<u>22,885,897</u>	<u>27,140,918</u>	<u>(4,255,021)</u>	<u>-15.7%</u>
Net Position				
Net Investment in Capital Assets	(454,133)	(413,437)	(40,696)	-9.8%
Net Restricted for Debt Purposes	518,049	475,432	42,617	9.0%
Unrestricted	<u>(9,054,727)</u>	<u>(13,010,904)</u>	<u>3,956,177</u>	<u>30.4%</u>
Total Net Position	<u>(\$8,990,811)</u>	<u>(\$12,948,909)</u>	<u>\$3,958,098</u>	<u>30.6%</u>

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

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, 2018. 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, 2018 and 2017.

	<u>2018</u>	<u>Restated 2017</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$10,390,330	\$9,809,273	\$581,057	5.9%
Casino Tax Distributions	69,277	64,195	5,082	7.9%
Other Operating Revenues	637,821	570,928	66,893	11.7%
Total Operating Revenues	<u>11,097,428</u>	<u>10,444,396</u>	<u>653,032</u>	<u>6.3%</u>
Interest Income	9,929	5,789	4,140	71.5%
Private Grants and Contributions	7,599	1,000	6,599	659.9%
Federal and State Grants	906,670	841,217	65,453	7.8%
Total Non-Operating Revenues	<u>924,198</u>	<u>848,006</u>	<u>76,192</u>	<u>9.0%</u>
Total Revenues	<u>12,021,626</u>	<u>11,292,402</u>	<u>729,224</u>	<u>6.5%</u>
Expenses				
Salaries	5,570,816	5,345,373	225,443	4.2%
Fringe Benefits	1,715,574	1,704,933	10,641	0.6%
Change in Net Pension and OPEB Liability	(4,449,880)	3,651,457	(8,101,337)	-221.9%
Purchased Services	3,408,149	3,077,394	330,755	10.7%
Materials and Supplies	426,442	469,878	(43,436)	-9.2%
Capital Outlay	105,512	98,549	6,963	7.1%
Depreciation and Amortization	462,956	411,814	51,142	12.4%
Other Expenses	823,959	804,000	19,959	2.5%
Total Expenses	<u>8,063,528</u>	<u>15,563,398</u>	<u>(7,499,870)</u>	<u>-48.2%</u>
Changes in Net Position	<u>3,958,098</u>	<u>(4,270,996)</u>	<u>8,229,094</u>	<u>192.7%</u>
Net Position: Beginning of the Year (Restated)	<u>(12,948,909)</u>	<u>(8,677,913)</u>	<u>(4,270,996)</u>	<u>-49.2%</u>
Net Position: End of Year	<u>(\$8,990,811)</u>	<u>(\$12,948,909)</u>	<u>\$3,958,098</u>	<u>30.6%</u>

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

The most significant increases in revenues from 2017 to 2018 are increases of \$581,057 in Foundation funding due to enrollment increases, casino funds of \$5,082, other operating revenues of \$66,893 due in part to increases in refund of prior year expenditures, federal funding to the school passed through the state of Ohio totaling \$65,453, private contributions of \$6,599 and interest income of \$4,140. Minor changes occurred in other revenue sources between fiscal year 2017 and 2018.

Total expenses decreased from 2017 to 2018 as a direct result of recognizing change in net pension and OPEB liability offset in part by increased personnel costs due to enrollment increases, as well as additional facility expenditures. Salaries and Fringe Benefits increased \$236,084 due to additional staffing and annual increases. Changes in Net Pension and OPEB Liability expense reduction of \$8,101,337 is due to recognition of pension liabilities per GASB 68 and 75. Purchased services increased \$330,755 due to a combination of changes in student support services, technology support services, professional development, management services, food services and facility costs. Materials and Supplies decreased \$43,436 due to prior year purchases of classroom supplies, software, online instruction and workbooks. Capital Outlay increased \$6,963 for the purchase of building improvements, classroom technology, furniture and equipment which were not capitalized. Depreciation increased \$51,142 due to facilities additions and the acquisition of capitalized technology. Other Expenses increased \$19,959 due to membership fees, insurances, fund raising and facility expenses.

Capital Assets

As of June 30, 2018, PC had \$6,473,676 invested in land, construction in process, building, building improvements, technology and software, furniture and equipment, net of depreciation. This is a \$264,898 decrease from June 30, 2017. The following schedule provides a summary of the School's Capital Assets as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$561,200	\$561,200	\$0	0.0%
Construction in Process	21,453	306,770	(285,317)	-93.0%
Building	2,241,711	2,001,663	240,048	12.0%
Building Improvements	3,388,502	3,431,819	(43,317)	-1.3%
Technology and Software	193,375	366,740	(173,365)	-47.3%
Furniture and Equipment	<u>67,435</u>	<u>70,382</u>	<u>(2,947)</u>	<u>-4.2%</u>
Net Capital Assets	<u>\$6,473,676</u>	<u>\$6,738,574</u>	<u>(\$264,898)</u>	<u>-3.9%</u>

For more information on capital assets see the Notes to the Financial Statements (Note V).

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

Bond 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.

On April 10, 2014 PC shared in the closing of a multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, along with escrow and reserve deposits from a 2008 bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due. The CCCPA bond refinance allowed PC to reacquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at PC. PC provided a mortgage on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, varies from a rate of 5.00% per annum to 7.75%. The outstanding principal balance, net of unamortized original bond discount, as of June 30, 2018 is \$7,962,257. For more information on debt service see the Notes to the Financial Statements.

Equipment Financing

During fiscal year 2014, PC secured a four-year loan with CF Bank to purchase \$29,515 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. This loan expired during the current fiscal year.

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 \$371,774 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, carries an interest rate of 1.72% per annum and will expire in November 2018 at which time the equipment will have minimal value.

During the 2016 fiscal year, the school entered into another lease agreement with Winthrop to acquire \$156,266 of technology equipment. This lease is for a term of 48 months and expires in September 2020 at which time the equipment will have minimal value. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt.

During the 2017 fiscal year, the school entered into another lease agreement with Winthrop to acquire \$107,455 of technology equipment. This lease is for a term of 48 months and expires in April 2021 at which time the equipment will have minimal value. The lease value has been

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt.

The outstanding principal value as of June 30, 2018 on the combined leases payable is \$174,834.

Net Pension and Other Post-Employment Benefits (OPEB) Liabilities

The net pension and OPEB liability is the largest single liability reported by PC at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, PC adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of PC's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal PC's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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, PC is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, PC's statements include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, PC is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB. This implementation also had the effect of restating net position at June 30, 2017, from \$(10,170,755) to \$(12,948,909).

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$11,734 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$426,666. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	\$8,063,528
Negative OPEB Expense under GASB 75	426,666
2018 Contractually Required Contribution	16,319
Adjusted 2018 Program Expenses	8,506,513
Total 2017 Program Expenses under GASB 45	12,785,244
Decrease in Program Expenses not Related to OPEB	<u><u>\$(4,278,731)</u></u>

CONSTELLATION SCHOOLS: PARMA COMMUNITY

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

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 1,376 students, 124 teaching staff members and expenses of \$8,063,528. During the summer of 2013 a six room addition was constructed at the West 54th site to accommodate the growth of the school. In February of 2014 an additional school building was purchased to expand the current educational program to meet the enrollment demand for the school. During the summer of 2015 PC acquired a lease for a fourth building to house the Intermediate school.

The Board of Directors, school management and school staff continue to work diligently to ensure that PC 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 PC 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; by calling 216.712.7600; or by faxing 216.712.7601.

Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2018

Current Assets:

Cash	\$851,345
Accounts Receivable	15,058
Prepaid Expenses	56,884
Due from Other Governments	148,941
Escrow Accounts	344,440
<i>Total Current Assets</i>	1,416,668

Non-Current Assets:

Security Deposit	29,522
Bond Reserve Accounts	811,075
Non-Depreciable Capital Assets	582,653
Capital Assets (Net of Accumulated Depreciation)	5,891,023
<i>Total Non-Current Assets</i>	7,314,273
<i>Total Assets</i>	8,730,941

Deferred Outflow of Resources:

Unamortized Deferred Charges on Bond Refinancing	571,816
Pension and OPEB (STRS & SERS)	4,592,329
<i>Total Deferred Outflow of Resources</i>	5,164,145
<i>Total Assets and Deferred Outflow of Resources</i>	13,895,086

Current Liabilities:

Accounts Payable	85,054
Interest Payable	255,787
Payroll Payable	532,788
Unearned Revenue	37,493
Due to Other Governments	30,245
Capital Lease Equipment Payable	111,893
Capital Lease Bond Notes Payable	97,151
<i>Total Current Liabilities</i>	1,150,411

Long Term Liabilities:

Capital Lease Equipment Payable	62,941
Capital Lease Bond Notes Payable	7,865,106
Net Pension and OPEB Liability	13,155,682
<i>Total Long Term Liabilities</i>	21,083,729
<i>Total Liabilities</i>	22,234,140

Deferred Inflow of Resources:

Pension and OPEB (STRS & SERS)	651,757
<i>Total Deferred Inflow of Resources</i>	651,757
<i>Total Liabilities and Deferred Inflow of Resources</i>	22,885,897

Net Position:

Net Investment in Capital Assets	(454,133)
Net Restricted for Debt Purposes	518,049
Unrestricted	(9,054,727)
<i>Total Net Position</i>	(\$8,990,811)

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

**Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2018**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$10,390,330
Casino Tax Distributions	69,277
Other Operating Revenues	637,821
<i>Total Operating Revenues</i>	11,097,428

Operating Expenses:

Salaries	5,570,816
Fringe Benefits	1,715,574
Change in Net Pension and OPEB Liability	(4,449,880)
Purchased Services	3,408,149
Materials and Supplies	426,442
Capital Outlay	105,512
Depreciation	462,956
Other Operating Expenses	252,433
<i>Total Operating Expenses</i>	7,492,002

Operating Income	3,605,426
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Non-Operating Revenues & Expenses:

Interest Income	9,929
Interest Expense	(571,526)
Federal and State Grants	906,670
Private Grants and Contributions	7,599
<i>Total Non-Operating Revenues & Expenses</i>	352,672

Change in Net Position	3,958,098
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Net Position at Beginning of the Year - Restated (See Note II.3)	(12,948,909)
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Net Position at End of Year	(\$8,990,811)
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$10,459,607
Cash Payments to Suppliers for Goods and Services	(5,995,269)
Cash Payments to Employees for Services	(5,386,663)
Other Operating Revenues	588,509
Net Cash Used for Operating Activities	<u>(333,816)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	7,599
Federal and State Grants Received	903,352
Net Cash Provided by Noncapital Financing Activities	<u>910,951</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(198,058)
Increase in Escrow Funds	(7)
Increase in Bond Reserve Accounts	(35,410)
Bond Principal Payments	(91,753)
Bond Interest Payments	(530,497)
Equipment Lease Principal Payments	(167,417)
Equipment Lease Interest Payments	(11,622)
Loan Principal Payments	(2,646)
Loan Interest Payments	(22)
Increase in Security Deposit	(2,488)
Net Cash Used for Capital and Related Financing Activities	<u>(1,039,920)</u>

Cash Flows from Investing Activities

Interest	9,929
Net Cash Provided by Investing Activities	<u>9,929</u>
Net Decrease in Cash	(452,856)
Cash at Beginning of Year	<u>1,304,201</u>
Cash at End of Year	<u><u>\$851,345</u></u>

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

(Continued)

**Constellation Schools: Parma Community
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018
(Continued)**

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

Operating Income	\$3,605,426
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**Adjustments to Reconcile Operating Income to
Net Cash Used for Operating Activities:**

Depreciation	462,956
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Changes in Assets, Liabilities, Deferred Inflows of Resources
and Deferred Outflows of Resources:

(Increase) in Accounts Receivable	(8,121)
Decrease in Prepaid Expenses	50,420
(Increase) in Deferred Outflows – Pensions and OPEB	(450,498)
(Decrease) in Accounts Payable	(80,173)
Increase in Payroll Payable	184,153
(Decrease) in Due to Other Governments	(57,406)
(Decrease) in Unearned Revenue	(41,191)
(Decrease) in Net Pension and OPEB Liability	(4,651,139)
Increase in Deferred Inflows – Pensions and OPEB	651,757

Total Adjustments	(3,939,242)
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Net Cash Used for Operating Activities	(\$333,816)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County, Ohio

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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 XVIII 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. The agreement can be renewed annually. See Note XVIII 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 124 certificated full time personnel and 33 support staff who provided services to 1,376 students. During 2018, the board members for PC also serve as the board for Constellation Schools: Old Brooklyn Community Elementary, Constellation Schools: Elyria Community and Constellation Schools: Lorain Community Elementary.

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.

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
Cuyahoga County, Ohio

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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 outflows 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. 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. Implementation of New Accounting Principles & Restatement of Net Position

For the fiscal year ended June 30, 2018, PC has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

CONSTELLATION SCHOOLS: PARMA COMMUNITY

- A Community School -

Cuyahoga County, Ohio

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of PC.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in PC's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of PC.

Net Position, June 30, 2017	\$ (10,170,755)
Adjustments:	
Net OPEB Liability	(2,789,888)
Deferred Outflow-Payments Subsequent to Measurement Date	<u>11,734</u>
Restated Net Position, July 1, 2017	<u>\$ (12,948,909)</u>

CONSTELLATION SCHOOLS: PARMA COMMUNITY
- A Community School -
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Other than employer contributions subsequent to the measurement date, PC 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 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, 2018 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 capital 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 \$2,500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated except for land and construction in process. Depreciation of buildings, building improvements, technology and software, furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets or less. Estimated useful lives are as follows:

Capital Asset Classification	Years
Building	40
Building Improvements	10 to 40
Technology & Software	3 to 5
Furniture and Equipment	10

CONSTELLATION SCHOOLS: PARMA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

8. Intergovernmental Revenues

PC currently participates in the State Foundation Program, the State Poverty Based Assistance Program, Community Schools Facilities Allocation 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 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 2018 school year totaled \$11,366,277.

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 2018 school year totaled \$7,599.

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. Unearned Revenue

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

12. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense; information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the

CONSTELLATION SCHOOLS: PARMA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

13. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations. However, claims and judgments, compensated absences that will be paid from available funds are reported as a liability in the financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

14. 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.

15. Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of assets by PC that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflow of resources related to pension and OPEB is described in Note XV and Note XVI.

A deferred inflow of resources is an acquisition of assets by PC that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The deferred inflow of resources related to pension and OPEB is described in Note XV and Note XVI.

When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. Deferred charges on refunding result from the difference in the carrying value of refunded debt to its reacquisition price. This amount is deferred and amortized over the shorter period of the life of the refunded debt or of the refunding debt.

16. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in

CONSTELLATION SCHOOLS: PARMA COMMUNITY

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by PC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

PC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

17. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

III. Deposits

At fiscal year end June 30, 2018, the carrying amount of PC’s deposits totaled \$851,345 and its bank balance was \$940,380. Based on the criteria described in GASB Statement No. 40, “Deposit and Investment Risk Disclosure,” as of June 30, 2018, \$440,380 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 Cleveland Cuyahoga County Port Authority totaled \$1,155,515 at fiscal year end June 30, 2018. The escrow accounts are invested in the US Treasury and are 100% backed by the full faith and credit of the United States government. Reserve accounts are invested in U.S. Bank Open Commercial Paper instruments.

PC has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred and two percent or a rate set by the Treasurer of State. Financial

CONSTELLATION SCHOOLS: PARMA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

institutions opting not to participate in OPC will collateralize utilizing the specific pledge method at one hundred and five percent.

IV. Purchased Services

Purchased Services include the following:

Instruction	\$481,865
Pupil Support Services	115,514
Staff Development & Support	471,648
Administrative	1,359,265
Occupancy Costs	645,479
Transportation	124,905
Food Services	208,929
Student Activities	<u>544</u>
 Total Purchased Services	 <u><u>\$3,408,149</u></u>

V. Capital Assets

A summary of capital assets at June 30, 2018 follows:

	Balance 7/1/17	Additions	Deletions	Balance 6/30/18
Capital Assets Not Being Depreciated:				
Land	\$561,200	\$0	\$0	\$561,200
Construction in Process	<u>306,770</u>	<u>21,453</u>	<u>(306,770)</u>	<u>21,453</u>
Total Capital Assets Not Being Depreciated:	<u>867,970</u>	<u>21,453</u>	<u>(306,770)</u>	<u>582,653</u>
Capital Assets Being Depreciated:				
Buildings	2,668,869	306,770	0	2,975,639
Building Improvements	4,181,831	164,047	0	4,345,878
Technology and Software	746,950	0	(37,278)	709,672
Furniture and Equipment	<u>202,248</u>	<u>12,558</u>	<u>0</u>	<u>214,806</u>

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- A Community School -
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Total Capital Assets Being Depreciated	<u>7,799,898</u>	<u>483,375</u>	<u>(37,278)</u>	<u>8,245,995</u>
Less Accumulated Depreciation:				
Buildings	(667,206)	(66,722)	0	(733,928)
Building Improvements	(750,012)	(207,364)	0	(957,376)
Technology and Software	(380,209)	(173,366)	37,278	(516,297)
Furniture and Equipment	<u>(131,867)</u>	<u>(15,504)</u>	<u>0</u>	<u>(147,371)</u>
Total Accumulated Depreciation	<u>(1,929,294)</u>	<u>(462,956)</u>	<u>37,278</u>	<u>(2,354,972)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>5,870,604</u>	<u>20,419</u>	<u>0</u>	<u>5,891,023</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$6,738,574</u></u>	<u><u>\$41,872</u></u>	<u><u>(\$306,770)</u></u>	<u><u>\$6,473,676</u></u>

VI. Loan Payable

During fiscal year 2014, PC secured a four-year loan with CF Bank to purchase \$29,515 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on October 15, 2017. Equipment purchased with loan proceeds has been capitalized. Principal payments during fiscal year 2018 totaled \$2,646 and interest paid totaled \$22. The loan was paid off during the year.

VII. Capital Equipment Lease Payable

During fiscal year 2015, PC entered into a 44-month lease for technology equipment with Celtic Leasing. During fiscal year 2016, PC entered into a forty-eight-month lease for additional technology equipment with Winthrop Leasing. During fiscal year 2017, PC entered into another forty-eight-month lease for additional technology equipment with Winthrop 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 \$665,010 have been capitalized (accumulated depreciation as of June 30, 2018 is \$446,206). This amount represents the actual purchase price of the equipment and is the same as the net present value of the

CONSTELLATION SCHOOLS: PARMA COMMUNITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

minimum lease payments at the time of acquisition. Principal payments during fiscal year 2018 totaled \$167,417 and interest paid totaled \$11,622. During the year, a lease with Winthrop totaling \$3,149 was retired. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Winthrop			Celtic		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$68,438	\$5,853	\$74,291	\$43,455	\$190	\$43,645
2020	38,677	2,289	40,966	0	0	0
2021	24,264	617	24,881	0	0	0
2022	0	0	0	0	0	0
Total	<u>\$131,379</u>	<u>\$8,759</u>	<u>\$140,138</u>	<u>\$43,455</u>	<u>\$190</u>	<u>\$43,645</u>

VIII. Snow Road Facility Lease

PC leases its facilities at 3421 Snow Road, Parma from Constellation Real Estate Holding Company, LLC under a multi-year lease agreement that expires June 30, 2020. The lease can be renewed for two additional five year periods extending the lease to June 30, 2030. Rent charged to PC is equivalent to the debt service being paid on the building by the owner. PC is responsible for all operating and maintenance costs incurred at the facility. A right to purchase the facility has been provided for PC at any time for a price equal to the sum of 1) outstanding debt on the facility, 2) cost of physical repairs or improvements made by the owner, and 3) any other reasonable costs and/or fees necessary to transfer ownership. During 2018 the total rent paid by PC was \$92,176. Future minimum lease payments are as follows:

Year	Lease Payments
2019	\$92,176
2020	<u>92,176</u>
Total	<u>\$184,352</u>

IX. 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 2018 grades Kindergarten through 3 were located at this site.

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NOTES TO THE FINANCIAL STATEMENTS
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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 leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was returned to the ownership of PC (See Note XII).

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.

X. West 54th Street Building Purchase

In order to finance a multi-million dollar expansion project during fiscal year 2008 the building and land located at 5983 West 54th Street in Parma was purchased by The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. PC leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was turned over to the ownership of PC (See Note XII). The original purchase price and building improvements under the capitalized lease continue to be recognized as capital assets and are being depreciated over their remaining useful life. During 2018 grades 6 through 12 were located at this site.

XI. Pearl Road School Building Purchase

On February 5, 2014, PC purchased a school building located at 6125 Pearl Road, Parma to expand their program. The purchase price of \$520,000 and other purchase costs totaling \$2,898 have been capitalized and will be depreciated over a forty year period. On April 10, 2014 PC was reimbursed for the purchase price and other purchase costs with funds provided by a capital lease bond issue (See Note XII). The purchase price, other purchase costs and subsequent building improvements will continue to be recognized as capital assets and will be depreciated over their useful life. The building was placed in service in August 2014 as an elementary school housing grades kindergarten through 3.

XII. Capital Lease Bond Notes Payable

On April 10, 2014 PC closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). Underwriters' discounts totaling \$538,825 and original bond discounts of \$163,934 were deducted from the bond proceeds at issuance. A portion of the proceeds, along with escrow and reserve deposits from a prior bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due (See Note XIII). In addition, \$4,953,849 of the CCCPA

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bonds is financing multi-million dollar building acquisition, renovation and expansion projects to meet increasing demand for enrollment for the participating schools.

The properties are managed through annual lease and sub-lease arrangements. PC and the CCCPA secured mortgages on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, is at the rate of 5.00% per annum for the bonds maturing between 2015 and 2017 (Series B); 5.75% for the bonds maturing between 2018 and 2024 (Series A); 6.50% for the bonds maturing between 2025 and 2034 (Series A); and 7.75% for the bonds maturing between 2035 and 2044 (Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2018 is \$7,962,257 and interest payable due July 1, 2018 is \$255,079. Interest paid during 2018 totaled \$530,497. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	<u>Balance 7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/18</u>	<u>Due In One Year</u>
Series A	\$8,090,497	\$0	(\$91,753)	\$7,998,744	\$97,151
Bond Discount	(38,311)	0	1,824	(36,487)	0
TOTALS	<u><u>\$8,052,186</u></u>	<u><u>\$0</u></u>	<u><u>(\$89,929)</u></u>	<u><u>\$7,962,257</u></u>	<u><u>\$97,151</u></u>

These lease obligations meet the criteria of a capital lease as defined by accounting standards and have been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the bond issuance continue to be recognized as capital assets and are being depreciated over their remaining useful life. PC's share of bond issuance costs totaling \$369,430 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by \$693,327. Loss on refinancing is reported as "Unamortized Deferred Charges on Bond Refinancing" and is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. The original bond discount, which totaled \$44,240 for PC, is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. As of June 30, 2018 the unamortized balances for the cost to refinance and the bond discount are \$571,816 and \$36,487 respectively.

The Bond Indenture requires PC to meet certain covenants. As of June 30, 2018 PC did not meet the required debt service coverage ratio (DSCR) or the cash on hand requirement. Unless waived by the owners of a majority of the principal amount of bonds outstanding, the school will be required to hire a management consultant to make recommendations with respect to increasing revenues, decreasing expenses or other

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financial matters of the school which are relevant to increasing the DSCR to at least 1.00 or 1.10, and increasing cash on hand to at least 30 days.

As part of the agreements for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for renovation and financing activities have been paid from these accounts through June 30, 2018. Lease payments were made by PC to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into a Debt Service Reserve Account to meet future debt service needs. Lease payments made during 2018 to fund interest, reserves and bond expenses totaled \$674,708.

The balances of escrow and reserve accounts as of June 30, 2018 are as follows:

Bond Debt Service Account	\$315,892
Expense Fund	<u>28,548</u>
Total Bond Escrow Accounts	<u><u>\$344,440</u></u>
Debt Service Reserve	\$666,982
Operating Reserve	<u>144,093</u>
Total Bond Reserve Accounts	<u><u>\$811,075</u></u>

The assets refinanced and acquired through the capital lease as of June 30, 2018 are as follows:

Land	\$561,200
Building	2,668,869
Building Improvements	<u>2,458,449</u>
Sub-Total	5,688,518
Accumulated Depreciation	<u>(1,249,650)</u>
Net Book Value	<u><u>\$4,438,868</u></u>

Future minimum lease payments for principal and interest on the face value of the Series 2014 bonds (does not include amortization of the loss to refinance the Series 2008 bonds or the bond discount on the Series 2014 bonds) under the capital lease are as follows:

Year	Principal	Interest	Total
2019	\$97,151	\$525,221	\$622,372
2020	134,932	519,635	654,567

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2021	143,027	511,876	654,903
2022	152,473	503,652	656,125
2023	160,569	494,885	655,454
2024 - 2028	964,761	2,315,925	3,280,686
2029 - 2033	1,329,076	1,959,274	3,288,350
2034 - 2038	1,835,070	1,460,830	3,295,900
2039 - 2043	2,559,652	751,127	3,310,779
2044	622,033	41,987	664,020
Total	\$7,998,744	\$9,084,412	\$17,083,156

XIII. Refunded Capital Lease Bond Notes Payable

On April 10, 2014 PC closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, \$22,004,213, along with escrow and reserve deposits from a prior bond issue, \$5,245,493, were used to advance refund the entire Constellation Schools Series 2008 Bonds issued by The Industrial Development Authority of the County of Pima (See Notes IX and X). The refunding portion of the issue, along with the escrow and reserve accounts from the 2008 issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the bonds when they come due.

XIV. 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 2018, PC 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.

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, Cyber Liability 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.

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2. Workers' Compensation

PC makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. There have been five claims filed by PC employees with the Ohio Workers' Compensation System between January 1, 2013 and June 30, 2018. The total payments for this claim was \$1,057. In the opinion of management, this claim will not have a material adverse effect on the overall financial position of PC as of June 30, 2018.

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 \$805,096.

XV. 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 PC'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.

Ohio Revised Code limits PC's obligation for this liability to annually required payments. PC cannot control benefit terms or the manner in which pensions are financed; however, PC 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

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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 due to other governments.

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

Plan Description – PC non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire 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.

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 30 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and PC 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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

PC's contractually required contribution to SERS was \$111,944 for fiscal year 2018

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

Plan Description – PC 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.

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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. PC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

PC's contractually required contribution to STRS was \$659,165 for fiscal year 2018.

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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, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. PC's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.02476048%	0.03981402%	
Prior Measurement Date	0.02320098%	0.03978977%	
Change in Proportionate Share	0.00155950%	0.00002425%	
Proportionate Share of the Net			
Pension Liability	\$ 1,479,384	\$ 9,457,906	\$ 10,937,290
Pension Expense	\$ 57,722	\$ (3,293,508)	\$ (3,235,786)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in PC's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2018 PC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 63,671	\$ 365,217	\$ 428,888
Changes of Assumptions	76,500	2,068,548	2,145,048
Changes in Proportion and Differences between PC Contributions and Proportionate Share of Contributions	191,339	916,334	1,107,673
PC Contributions Subsequent to the Measurement Date	111,944	659,165	771,109
Total Deferred Outflows of Resources	<u>\$ 443,454</u>	<u>\$ 4,009,264</u>	<u>\$ 4,452,718</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 76,227	\$ 76,227
Net Difference between Projected and Actual Earnings on Pension Plan Investments	7,020	312,122	319,142
Changes in Proportion and Differences between PC Contributions and Proportionate Share of Contributions	0	0	0
Total Deferred Inflows of Resources	<u>\$ 7,020</u>	<u>\$ 388,349</u>	<u>\$ 395,369</u>

\$771,109 reported as deferred outflows of resources related to pension resulting from PC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 170,218	\$ 784,045	\$ 954,263
2020	148,098	1,208,636	1,356,734
2021	40,663	803,388	844,051
2022	(34,489)	165,681	131,192
	<u>\$ 324,490</u>	<u>\$ 2,961,750</u>	<u>\$ 3,286,240</u>

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 terminations). Actuarially determined amounts are subject to continual review and potential modifications,

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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, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average 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 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 earnings were calculated using the long-term assumed investment rate of return (7.50 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.

Sensitivity of PC'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 PC's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

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	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PC's Proportionate Share of the Net Pension Liability	\$ 2,053,001	\$ 1,479,384	\$ 998,863

6. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of PC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents PC's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what PC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
PC's Proportionate Share of the Net Pension Liability	\$ 13,557,586	\$ 9,457,906	\$ 6,004,540

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XVI. Defined Benefit OPEB Plans

1. Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents PC's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in due to other governments.

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

Health Care Plan Description - PC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For

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GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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. For fiscal year 2018, PC's surcharge obligation was \$12,173.

The surcharge, added to the allocated portion of the 14 percent employer

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contribution rate is the total amount assigned to the Health Care Fund. PC's contractually required contribution to SERS was \$16,319 for fiscal year 2018. Of this amount \$12,173 is reported as an accounts payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, 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, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

4. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. PC's proportion of the net OPEB liability was based on PC's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.02477874%	0.03981402%	
Prior Measurement Date	0.02322228%	0.03978977%	
Change in Proportionate Share	<u>0.00155646%</u>	<u>0.00002425%</u>	
Proportionate Share of the Net OPEB Liability	\$ 664,996	\$ 1,553,396	\$ 2,218,392
OPEB Expense	\$ 47,162	\$ (473,828)	\$ (426,666)

At June 30, 2018, PC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 89,672	\$ 89,672
Changes in Proportionate Share and Differences between PC Contributions and Proportionate Share of Contributions	32,508	1,112	33,620
PC Contributions Subsequent to the Measurement Date	16,319	0	16,319
Total Deferred Outflows of Resources	\$ 48,827	\$ 90,784	\$ 139,611
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 1,756	\$ 66,396	\$ 68,152
Changes of Assumptions	63,105	125,131	188,236
Total Deferred Inflows of Resources	\$ 64,861	\$ 191,527	\$ 256,388

\$16,319 reported as deferred outflows of resources related to OPEB resulting from PC contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (11,525)	\$ (22,324)	\$ (33,849)
2020	(11,525)	(22,324)	(33,849)
2021	(8,864)	(22,324)	(31,188)
2022	(439)	(22,324)	(22,763)
2023	0	(5,725)	(5,725)
Thereafter	0	(5,722)	(5,722)
	\$ (32,353)	\$ (100,743)	\$ (133,096)

5. Actuarial Assumptions – SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual

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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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several

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factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present

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value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of PC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
PC's Proportionate Share of the Net OPEB Liability	\$ 803,068	\$ 664,996	\$ 555,608

	1% Decrease	Current Trend Rate	1% Increase
PC's Proportionate Share of the Net OPEB Liability	\$ 539,595	\$ 664,996	\$ 830,967

6. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

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For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of PC's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net

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OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
PC's Proportionate Share of the Net OPEB Liability	\$ 2,085,409	\$ 1,553,396	\$ 1,132,932
	1% Decrease	Current Trend Rate	1% Increase
PC's Proportionate Share of the Net OPEB Liability	\$ 1,079,233	\$ 1,553,396	\$ 2,177,450

XVII. 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, 2018.

2. School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on PC for fiscal year 2018.

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As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of PC.

In addition, PC's contracts with their Sponsor, ESC of Lake Erie West and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by the school from the State (See Note XVIII). As discussed above, FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to fee calculation changes necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, PC.

XVIII. 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 were calculated as 2.50% of the Fiscal Year 2018 Foundation payments received by PC, from the State of Ohio. The total amount due from PC for fiscal year 2018 was \$246,807 all of which was paid prior to June 30, 2018.

PC entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2018. The agreement was for a period of one year, effective July 1, 2017. Management fees are calculated as 6.25% of the Fiscal Year 2018 Foundation Funds payment received by PC from the State of Ohio plus a fixed fee of \$485,000. The total fee cannot exceed twice the fixed fee. The total amount due from PC for the fiscal year ending June 30, 2018 was \$970,000. PC paid a total of \$972,177 prior to June 30, 2018. A refund of \$2,177 was collected subsequent to June 30, 2018 for the overpayment and has been recorded in FY 2019 as a refund of prior year expenses.

XIX. Net Restricted for Debt Purposes

Net restricted for debt purposes represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Project Fund, which is included in Escrow Accounts, is being held for construction purposes and was partially liquidated during the fiscal year. The Bond Debt Service Account and the Expense Fund, which are included in Escrow Accounts, along with the Debt Service Reserve and Operating Reserve Accounts, which are being held for bond financing reserve requirements, will continue to be funded until January 1, 2044.

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Constellation Schools: Parma Community
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the PC's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)					
PC's Proportion of the Net Pension Liability	0.02476048%	0.02320098%	0.02058910%	0.01722589%	0.01722589%
PC's Proportionate Share of the Net Pension Liability	\$1,479,384	\$1,698,098	\$1,174,834	\$871,792	\$1,024,368
PC's Covered Payroll (2)	\$796,043	\$730,686	\$500,744	\$442,460	\$281,655
PC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	185.84%	232.40%	234.62%	197.03%	363.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)					
PC's Proportion of the Net Pension Liability	0.03981402%	0.03978977%	0.03624066%	0.03345577%	0.03345577%
PC's Proportionate Share of the Net Pension Liability	\$9,457,906	\$13,318,835	\$10,015,858	\$8,137,601	\$9,693,457
PC's Covered Payroll (2)	\$4,377,014	\$4,091,643	\$3,544,886	\$3,305,031	\$3,255,223
PC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	325.51%	282.54%	246.22%	297.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 through 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

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

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Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the PC's Contributions - Pension
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School Employees Retirement System (SERS)				
Contractually Required Contribution	\$111,944	\$111,446	\$102,296	\$65,998
Contributions in Relation to the Contractually Required Contribution	<u>(111,944)</u>	<u>(111,446)</u>	<u>(102,296)</u>	<u>(65,998)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
PC's Covered Payroll (1)	\$829,215	\$796,043	\$730,686	\$500,744
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	\$659,165	\$612,782	\$572,830	\$496,284
Contributions in Relation to the Contractually Required Contribution	<u>(659,165)</u>	<u>(612,782)</u>	<u>(572,830)</u>	<u>(496,284)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
PC's Covered Payroll (1)	\$4,708,321	\$4,377,014	\$4,091,643	\$3,544,886
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

(1) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 through 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$61,325	\$38,981	\$33,471	\$29,159	\$28,461	\$28,143
<u>(61,325)</u>	<u>(38,981)</u>	<u>(33,471)</u>	<u>(29,159)</u>	<u>(28,461)</u>	<u>(28,143)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$442,460	\$281,655	\$248,855	\$231,973	\$210,199	\$286,006
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$429,654	\$423,179	\$415,489	\$368,921	\$310,835	\$252,810
<u>(429,654)</u>	<u>(423,179)</u>	<u>(415,489)</u>	<u>(368,921)</u>	<u>(310,835)</u>	<u>(252,810)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,305,031	\$3,255,223	\$3,196,069	\$2,837,854	\$2,391,038	\$1,944,692
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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Constellation Schools: Parma Community
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Required Supplementary Information
Schedule of the PC's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>		
PC's Proportion of the Net OPEB Liability	0.02477874%	0.02322228%
PC's Proportionate Share of the Net OPEB Liability	\$664,996	\$661,921
PC's Covered Payroll	\$796,043	\$730,686
PC's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	83.54%	90.59%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>		
PC's Proportion of the Net OPEB Liability	0.03981402%	0.03978977%
PC's Proportionate Share of the Net OPEB Liability	\$1,553,396	\$2,127,967
PC's Covered Payroll	\$4,377,014	\$4,091,643
PC's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	52.01%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

**Constellation Schools: Parma Community
Cuyahoga County, Ohio**

*Required Supplementary Information
Schedule of the PC's Contributions - OPEB
Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School Employees Retirement System (SERS)				
Contractually Required Contribution (1)	\$16,319	\$11,734	\$10,135	\$11,482
Contributions in Relation to the Contractually Required Contribution	<u>(16,319)</u>	<u>(11,734)</u>	<u>(10,135)</u>	<u>(11,482)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
PC's Covered Payroll (2)	\$829,215	\$796,043	\$730,686	\$500,744
OPEB Contributions as a Percentage of Covered Payroll (1)	1.97%	1.47%	1.39%	2.29%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
PC's Covered Payroll (2)	\$4,708,321	\$4,377,014	\$4,091,643	\$3,544,886
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 through 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$7,957	\$7,273	\$6,669	\$5,810	\$3,801	\$12,023
<u>(7,957)</u>	<u>(7,273)</u>	<u>(6,669)</u>	<u>(5,810)</u>	<u>(3,801)</u>	<u>(12,023)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$442,460	\$281,655	\$248,855	\$231,973	\$210,199	\$286,006
1.80%	2.58%	2.68%	2.50%	1.81%	4.20%
\$33,050	\$32,552	\$31,961	\$28,379	\$23,910	\$19,447
<u>(33,050)</u>	<u>(32,552)</u>	<u>(31,961)</u>	<u>(28,379)</u>	<u>(23,910)</u>	<u>(19,447)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,305,031	\$3,255,223	\$3,196,069	\$2,837,854	\$2,391,038	\$1,944,692
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Constellation Schools: Parma Community
Cuyahoga County
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
 - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms – SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Constellation Schools: Parma Community
Cuyahoga County
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through the Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education - Grants to States	84.027	\$ 44,952	\$ 16,040
		216,483	244,544
Total Special Education -Grants to States		<u>261,435</u>	<u>260,584</u>
Title I Grants to Local Educational Agencies	84.010	50,184	15,727
		294,382	375,473
Total Title I Grants to Local Educational Agencies		<u>344,566</u>	<u>391,200</u>
English Language Acquisition Grants	84.365	10,087	3,867
		30,166	34,214
Total English Language Acquisition Grants		<u>40,253</u>	<u>38,081</u>
Supporting Effective Instruction State Grants	84.367	39,698	39,698
Total U.S. Department of Education		<u>685,952</u>	<u>729,563</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through the Ohio Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	45,526	45,526
National School Lunch Program Cash-Assistance	10.555	166,058	166,058
Total Child Nutrition Cluster		<u>211,584</u>	<u>211,584</u>
Team Nutrition Grants	10.574	600	
Total U.S. Department of Agriculture		<u>212,184</u>	<u>211,584</u>
Totals		<u>\$ 898,136</u>	<u>\$ 941,147</u>

The accompanying notes are an integral part of this schedule.

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) includes the federal award activity of the Constellation Schools: Parma Community, Cuyahoga County, Ohio (the School) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receipts and expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants and local funds. When reporting expenditures on this Schedule, the School assumes it expends Federal monies first.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Constellation Schools: Parma Community
Cuyahoga County
5730 Broadview Rd
Parma, OH 44134

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Constellation Schools: Parma Community, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2018, 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 21, 2018, wherein we noted the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

November 21, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Constellation Schools: Parma Community
Cuyahoga County
5730 Broadview Rd
Parma, OH 44134

To the Board of Directors:

Report on Compliance for the Major Federal Program

We have audited Constellation Schools: Parma Community's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Constellation Schools: Parma Community's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School's major federal program.

Management's Responsibility

The School's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for the School's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on the Major Federal Program

In our opinion, Constellation Schools: Parma Community complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *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 federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement 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 would not necessarily 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.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

November 21, 2018

**CONSTELLATION SCHOOLS: PARMA COMMUNITY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control 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 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster, CFDA 10.553 and 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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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
NOVEMBER 27, 2018**