

**CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Dave Yost • Auditor of State

January 11, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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

DAVE YOST
Auditor of State

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Mary Taylor, CPA

Auditor of State

Board of Trustees
Constellation School: Madison Community Elementary
5983 West 54th Street
Parma, Ohio 44134

We have reviewed the *Independent Auditor's Report* of the Constellation School: Madison Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Constellation School: Madison Community Elementary is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 28, 2010

**CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
CUYAHOGA COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 24, 2010

The Board of Trustees
Constellation Schools: Madison Community Elementary
2015 West 95th Street
Cleveland, Ohio 44102

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Madison Community Elementary (the School), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Constellation Schools: Madison Community Elementary, as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis For the Year Ended June 30, 2010

The discussion and analysis of Constellation Schools: Madison Community Elementary (MDCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the financial performance of MDCE 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 MDCE.

Financial Highlights

Key financial highlights for 2010 include the following:

- In total, net assets increased \$111,404, which represents a 22.1% increase from 2009. This increase is due primarily to an increase in revenues from increased enrollment, federal stimulus programs and services provided to other schools. Increased expenses partially offset the revenue for hiring additional staff for the increased enrollment.
- Total assets increased \$98,991, which represents a 3.1% increase from 2009. This is due primarily to increased enrollment, federal stimulus programs and improved efficiencies in operating the school and is reflected in the increased cash balance at the end of fiscal year 2010.
- Liabilities decreased \$12,413, which represents a 0.5% decrease, from 2009. Slight reductions in vendor payables, payroll payables and deferred revenue occurred during the year.
- Operating revenues increased by \$148,547, which represents an 8.5% increase from 2009. This increase is a result of increased enrollment and services provided to other schools.
- Expenses increased by \$273,250 which represents a 13.0% increase from 2009. Operating expense increases are due to hiring more staff, normal annual increases and increased depreciation and amortization.
- Non-operating revenues increased by \$199,975, which represents a 51.4% increase from 2009. This increase is due to increased enrollment and federal stimulus funds which has been partially offset by more than a \$6,700 reduction in interest earnings.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2010

Statement of Net Assets

The Statement of Net Assets looks at how well MDCE has performed financially through June 30, 2010. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Assets for fiscal years ended June 30, 2010 and 2009 for MDCE.

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$562,900	\$448,520	\$114,380	25.5%
Other Current Assets	136,566	115,519	21,047	18.2%
Non-Current Assets	708,793	705,462	3,331	0.5%
Capital Assets	<u>1,886,838</u>	<u>1,926,605</u>	<u>(39,767)</u>	<u>-2.1%</u>
Total Assets	<u>3,295,097</u>	<u>3,196,106</u>	<u>98,991</u>	<u>3.1%</u>
Liabilities				
Current Liabilities	108,876	121,289	(12,413)	-10.2%
Long-Term Liabilities	<u>2,570,000</u>	<u>2,570,000</u>	<u>0</u>	<u>0.0%</u>
Total Liabilities	<u>2,678,876</u>	<u>2,691,289</u>	<u>(12,413)</u>	<u>-0.5%</u>
Net Assets				
Investment in capital assets, net of related debt	(9,421)	45,782	(55,203)	-120.6%
Restricted for Debt Purposes, net of related debt	141,716	128,965	12,751	9.9%
Unrestricted	<u>483,926</u>	<u>330,070</u>	<u>153,856</u>	<u>46.6%</u>
Total Net Assets	<u>\$616,221</u>	<u>\$504,817</u>	<u>\$111,404</u>	<u>22.1%</u>

Net Assets increased \$111,404, due primarily to increased enrollment, federal stimulus programs and services provided to other schools. Cash increased \$114,380; bond escrow accounts decreased \$6,016; due from other governments increased \$28,188; accounts receivable decreased \$1,125, bond reserve accounts increased \$13,812; deferred charges decreased \$10,481 and net capital assets decreased \$39,767 from 2009. Accounts payable decreased \$5,796; accrued wages and benefits decreased \$4,702 and deferred revenues decreased \$1,915 from 2009.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2010

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2010.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for MDCE for fiscal years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$1,808,865	\$1,722,091	\$86,774	5.0%
Other Operating Revenues	96,731	34,958	61,773	176.7%
Total Operating Revenues	<u>1,905,596</u>	<u>1,757,049</u>	<u>148,547</u>	<u>8.5%</u>
Interest Income	0	6,746	(6,746)	-100.0%
Federal and State Grants	588,708	381,987	206,721	54.1%
Total Non-Operating Revenues	<u>588,708</u>	<u>388,733</u>	<u>199,975</u>	<u>51.4%</u>
Total Revenues	<u>2,494,304</u>	<u>2,145,782</u>	<u>348,522</u>	<u>16.2%</u>
Expenses				
Salaries	1,022,242	850,661	171,581	20.2%
Fringe Benefits	304,954	254,826	50,128	19.7%
Purchased Services	620,658	545,738	74,920	13.7%
Materials and Supplies	116,303	126,435	(10,132)	-8.0%
Capital Outlay	24,396	22,213	2,183	9.8%
Depreciation and Amortization	84,156	93,596	(9,440)	-10.1%
Other Operating Expenses	210,191	216,181	(5,990)	-2.8%
Total Expenses	<u>2,382,900</u>	<u>2,109,650</u>	<u>273,250</u>	<u>13.0%</u>
Net Income/(Loss)	<u>111,404</u>	<u>36,132</u>	<u>75,272</u>	<u>208.3%</u>
Net Assets at Beginning of the Year	<u>504,817</u>	<u>468,685</u>	<u>36,132</u>	<u>7.7%</u>
Net Assets at End of Year	<u>\$616,221</u>	<u>\$504,817</u>	<u>\$111,404</u>	<u>22.1%</u>

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2010

Net Assets increased in both fiscal years ending June 30, 2009 and 2010. This is due to increased enrollment, federal stimulus programs, services provided to other schools and improved operating efficiencies for both years. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

Overall, revenues increased by \$348,522 from 2009 to 2010. The most significant changes in revenues are \$194,852 from Federal Stimulus Funds and \$86,774 Foundation and Poverty Based Assistance funds. Other revenues also increased because of increases of \$11,869 in Federal and State Grants which are tied to the enrollment increases and \$51,876 for services provided to other schools. Interest income decreased \$6,746 from 2009.

Total expenses increased from 2009 to 2010. This is a direct result of normal annual increases in operating costs and increased services for an increased enrollment. Salaries and Fringe Benefits increased \$221,709 due to additional staffing and annual increases. Purchased services increased \$74,920 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$10,132 and Capital Outlay increased \$2,283 due to prior year purchases of text books, classroom supplies, furniture and equipment for classroom expansions. Depreciation and amortization decreased \$9,440 as a direct result of classroom computers reaching full depreciation during the previous year. Other Expenses decreased slightly by \$5,990.

Capital Assets

As of June 30, 2010, MDCE had \$1,886,838 invested in land, building, building improvements, computers, technology, furniture and equipment, net of depreciation. This is a \$39,767 decrease from June 30, 2009. The following schedule provides a summary of Fixed Assets as of June 30, 2010 and 2009 for MDCE.

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$80,000	\$80,000	\$0	0.0%
Building	675,000	693,000	(18,000)	-2.6%
Building Improvements	1,051,319	1,067,218	(15,899)	-1.5%
Computers and Technology	23,574	21,196	2,378	11.2%
Furniture and Equipment	56,945	65,191	(8,246)	-12.6%
Net Capital Assets	<u>\$1,886,838</u>	<u>\$1,926,605</u>	<u>(\$39,767)</u>	<u>-2.1%</u>

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

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Management's Discussion and Analysis For the Year Ended June 30, 2010

Capital Lease

On January 23, 2008, MDCE entered into a financing arrangement to purchase and renovate the building it occupies. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the properties occupied by MDCE. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2010 is \$2,570,000.

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

Current Financial Issues

Constellation Schools: Madison Community Elementary opened in the fall of 2004. The school has grown from 35 students, three teaching staff members and expenses of \$387,165 to a total of 250 students, 27 teaching staff members and expenses of \$2,382,900. MDCE exercised its' purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima. MDCE leases the space from IDA as part of a multi-school, multi-property bond financing arrangement to purchase, renovate and expand school buildings.

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for MDCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Treasurer/CFO Thomas F. Babb, CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Madison Community Elementary
Cuyahoga County
Statement of Net Assets
As of June 30, 2010**

Assets:

Current Assets:

Cash	\$562,900
Escrow Accounts	106,664
Due from Other Governments	29,867
Accounts Receivable	35
<i>Total Current Assets</i>	699,466

Non-Current Assets:

Bond Reserve Accounts	420,552
Deferred Charges	288,241
Non-Depreciable Capital Assets	80,000
Capital Assets (Net of Accumulated Depreciation)	1,806,838
<i>Total Non-Current Assets</i>	2,595,631

<i>Total Assets</i>	3,295,097
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Liabilities:

Current Liabilities:

Accounts Payable	15,491
Interest Payable	88,985
Accrued Wages and Benefits	205
Deferred Revenue	4,195
<i>Total Current Liabilities</i>	108,876

Long Term Liabilities:

Capital Lease Bond Notes Payable	2,570,000
<i>Total Liabilities</i>	2,678,876

Net Assets:

Investment in capital assets, net of related debt	(9,421)
Restricted for Debt Purposes, net of related debt	141,716
Unrestricted	483,926
<i>Total Net Assets</i>	\$616,221

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

**Constellation Schools: Madison Community Elementary
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$1,808,865
Other Operating Revenues	96,731
<i>Total Operating Revenues</i>	<u>1,905,596</u>

Operating Expenses:

Salaries	1,022,242
Fringe Benefits	304,954
Purchased Services	620,658
Materials and Supplies	116,303
Capital Outlay	24,396
Depreciation and Amortization	84,156
Other Operating Expenses	32,221
<i>Total Operating Expenses</i>	<u>2,204,930</u>

Operating Loss	<u>(299,334)</u>
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Non-Operating Revenues & Expenses:

Interest Expense	(177,970)
Federal and State Grants	588,708
<i>Total Non-Operating Revenues & Expenses</i>	<u>410,738</u>

Net Income	<u>111,404</u>
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Net Assets at Beginning of the Year	<u>504,817</u>
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Net Assets at End of Year	<u><u>\$616,221</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Madison Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,808,865
Cash Payments to Suppliers for Goods and Services	(1,103,222)
Cash Payments to Employees for Services	(1,028,049)
Other Operating Revenues	<u>95,941</u>
Net Cash Used for Operating Activities	<u>(226,465)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>560,519</u>
Net Cash Provided by Noncapital Financing Activities	<u>560,519</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(33,908)
Decrease in Escrow Funds	6,016
Increase in Bond Reserve Accounts	(13,812)
Bond Interest Payments	<u>(177,970)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(219,674)</u>

Net Increase in Cash	114,380
Cash at Beginning of Year	<u>448,520</u>
Cash at End of Year	<u><u>\$562,900</u></u>

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

Constellation Schools: Madison Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010
(Continued)

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

Operating Loss	(\$299,334)
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Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:

Depreciation and Amortization	84,156
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Changes in Assets and Liabilities:

Decrease in Accounts Receivable	1,125
(Decrease) in Accounts Payable	(5,795)
(Decrease) in Accrued Wages and Benefits	(4,702)
(Decrease) in Deferred Revenue	(1,915)

Total Adjustments	72,869
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Net Cash Used for Operating Activities	(\$226,465)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

I. Description of the School and Reporting Entity

Constellation Schools: Madison Community Elementary (MDCE) is a nonprofit corporation established on December 5, 2003 as Madison Community School (MDCS) 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 March 28, 2006, MDCE 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 MDCE. MDCE, which is part of Ohio's education program, is independent of any school district. MDCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MDCE.

On January 20, 2004 MDCE (as MDCS) was approved for operations under a contract between the Governing Authority of MDCE and Lucas County Educational Service Center (LCESC) as their sponsor. The contract with LCESC was subsequently renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. MDCE entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XI for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Madison Community Elementary.

MDCE 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 MDCE' instructional facility staffed by twenty-seven certificated full time teaching personnel who provide services to 250 students. During 2010, the board members for MDCE also serve as the board for Constellation Schools: Parma Community.

II. Summary of Significant Accounting Policies

The financial statements of MDCE 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 to its governmental activities provided they do not conflict with or contradict

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

GASB pronouncements. MDCE also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. MDCE has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of MDCE's accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. MDCE 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 MDCE 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 MDCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to MDCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Monies due MDCE for the year ended June 30, 2010 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Capital Asset Classification	Years
Building	40
Building Improvements	10 to 40
Computers and Technology	3
Furniture and Equipment	10

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

7. Intergovernmental Revenues

MDCE currently participates in the State Foundation Program, the State Poverty Based Assistance Program and the Federal State Fiscal Stabilization Funds Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. MDCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, the American Recovery and Reinvestment Act 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 2010 school year totaled \$2,397,573.

8. Private Grants and Contributions

MDCE receives 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. MDCE did not receive any grants and contributions for the 2010 school.

9. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, MDCE 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. MDCE will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

10. Use of Estimates

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

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

11. Deferred Revenue

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

12. Deferred Charges

Deferred charges have been recorded on the Statement of Net Assets to recognize financing fees related to the bond financing arrangement discussed in note VI. These charges are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method.

III. Deposits

At fiscal year end June 30, 2010, the carrying amount of MDCE's deposits totaled \$562,900 and its bank balance was \$590,864. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2010, \$340,864, of the bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of MDCE and the Industrial Development Authority of the County of Pima, Arizona totaled \$527,216 at fiscal year end June 30, 2010. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

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

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IV. Capital Assets

A summary of capital assets at June 30, 2010 follows:

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Capital Assets Not Being Depreciated:				
Land	\$80,000	\$0	\$0	\$80,000
Capital Assets Being Depreciated:				
Building	720,000	0	0	720,000
Building Improvements	1,094,583	11,760	0	1,106,343
Computers and Technology	98,923	22,148	0	121,071
Furniture and Equipment	82,456	0	0	82,456
Total Capital Assets Being Depreciated	1,995,962	33,908	0	2,029,870
Less Accumulated Depreciated:				
Building	(27,000)	(18,000)	0	(45,000)
Building Improvements	(27,365)	(27,659)	0	(55,024)
Computers and Technology	(77,727)	(19,770)	0	(97,497)
Furniture and Equipment	(17,265)	(8,246)	0	(25,511)
Total Accumulated Depreciation	(149,357)	(73,675)	0	(223,032)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	1,846,605	(39,767)	0	1,806,838
Total Capital Assets, Net of Accumulated Depreciation	\$1,926,605	(\$39,767)	\$0	\$1,886,838

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

V. Purchased Services

Purchased Services include the following:

Instruction	\$30,404
Pupil Support Services	108,403
Staff Development & Support	27,338
Administrative	300,783
Occupancy Costs	67,323
Food Services	<u>86,407</u>
 Total Purchased Services	 <u><u>\$620,658</u></u>

VI. Capital Lease Bond Notes Payable

On January 23, 2008 MDCE closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the property leased by MDCE for the purchase option price of \$800,000. In addition IDA is financing building renovations to meet increasing demand for enrollment. The property is leased back to MDCE through annual lease renewals through January 2038. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association, which was transferred to US Bank National Association in August 2008. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2010 is \$2,570,000 and interest payable due July 1, 2010 is \$88,985. Interest expense during 2010 totaled \$177,970. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/09	Additions	Deletions	6/30/10	Due In One Year
Lease Revenue					
Bonds	<u>\$2,570,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,570,000</u>	<u>\$0</u>

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be

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recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during the year and Construction in Progress totaling \$1,085,573 was transferred to the building improvements capital account. Issuance costs, finance fees and underwriters discount totaling \$314,444 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2010 was \$26,204. The Bond Indenture requires MDCE to meet certain covenants. As of June 30, 2010 MDCE is in compliance with those covenants.

As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee and subsequently transferred to US Bank, N.A. Payments for construction and financing activities have been paid from these accounts through June 30, 2010. Lease payments were made by MDCE to cover bond interest and administrative fees due in July 2010 and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term. Lease payments made during 2010 to fund interest, reserves and bond expenses totaled \$200,273. The balances of escrow and reserve accounts as of June 30, 2010 are as follows:

Bond Fund	\$102,928
Expense Fund	<u>3,736</u>
Total Escrow Accounts	<u>\$106,664</u>
Reserve Fund	\$256,315
Supplemental Reserve	35,736
Operating Reserve	<u>128,501</u>
Total Bond Reserve Accounts	<u>\$420,552</u>

The assets refinanced and acquired through the capital lease as of June 30, 2010 are as follows:

Land	\$80,000
Building	720,000
Building Improvements	1,106,342
Bond Finance Fees	<u>314,444</u>
Sub-Total	2,220,786
Less Accumulated Depreciation	<u>(126,227)</u>
Net Book Value	<u>\$2,094,559</u>

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

Year	Principal	Interest	Total
2011	\$0	\$177,970	\$177,970
2012	30,825	177,970	208,795
2013	32,915	176,005	208,920
2014	35,005	173,907	208,912
2015	37,095	171,675	208,770
2016 - 2020	223,614	819,873	1,043,487
2021 - 2025	310,345	733,168	1,043,513
2026 - 2030	435,735	608,200	1,043,935
2031 - 2035	610,760	432,799	1,043,559
2036 - 2038	853,706	147,277	1,000,983
Total	\$2,570,000	\$3,618,844	\$6,188,844

VII. Risk Management

1. Property and Liability Insurance

MDCE 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 2010, MDCE contracted with Indiana Insurance Company for all of its insurance.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

2. Workers' Compensation

MDCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by MDCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2010. The total payments made for this claim have been \$2,217. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MDCE as June 30, 2010.

3. Employee Medical, Dental, and Life Benefits

MDCE provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by MDCE for the fiscal year is \$134,722.

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

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

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

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The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the members’ three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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

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

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**- A Community School -
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FOR THE YEAR ENDED JUNE 30, 2010**

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

The DB and Combined Plan offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2009 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

MDCE's required contributions for pension obligations for the fiscal years ended June 30, 2010, 2009 and 2008 were \$122,612, \$100,878 and \$82,946, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

2. School Employees Retirement System

MDCE contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and MDCE is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. MDCE's contributions to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$11,070, \$10,454 and \$8,297, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

IX. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

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

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

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Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2010, 2009 and 2008 MDCE's contributions to post-employment health care were \$9,432, \$7,760 and \$6,380, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2010 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2010, 2009 and 2008 MDCE contributions to Medicare Part B were \$601, \$560 and \$403, respectively; 100% has been contributed for fiscal years 2010, 2009 and 2008.

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

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FOR THE YEAR ENDED JUNE 30, 2010**

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2010 the health care allocation is 0.46%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2010, 2009 and 2008 MDCE contributions to the Health Care Plan, including the surcharge were \$1,558, \$4,233 and \$2,862, respectively; 23.3% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008. \$1,194 representing the unpaid surcharge due for fiscal year 2010 is recorded as a liability within the respective funds.

X. Contingencies

1. Grants

MDCE 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 MDCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MDCE at June 30, 2010.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2010 are immaterial and are not reflected in the financial statements but will be included in the financial activity for fiscal year 2011.

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FOR THE YEAR ENDED JUNE 30, 2010

XI. Sponsorship and Management Agreements

MDCE entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement, effective October 16, 2003, was renewed effective November 2, 2006. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2010 Foundation payments received by MDCE, from the State of Ohio. The total amount due from MDCE for fiscal year 2010 was \$27,132, all of which was paid prior to June 30, 2010

MDCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2010. The agreement was for a period of one year, effective July 1, 2009. Management fees are calculated as 6% of the Fiscal Year 2010 Foundation and State Fiscal Stabilization Funds payment received by MDCE from the State of Ohio plus a fixed fee of \$137,500. The total amount due from MDCE for the fiscal year ending June 30, 2010 was \$254,048 all of which was paid prior to June 30, 2010.

XII. Restricted for Debt Purposes, Net of Related Debt

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



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 24, 2010

To the Board of Trustees
Constellation Schools: Madison Community Elementary
2015 West 95th Street
Cleveland, OH 44102

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

We have audited the financial statements of the governmental activities of the Constellation Schools: Madison Community Elementary (the School) as of and for the year ended June 30, 2010, which collectively comprise the Constellation Schools: Madison Community Elementary's basic financial statements and have issued our report thereon dated November 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Constellation Schools: Madison Community Elementary in a separate letter dated November 24, 2010.

This report is intended solely for the information and use of the Board of Trustees, audit committee, federal awarding agencies and pass-through agencies, management and the School's sponsor, and is not intended to be and should not be used by anyone other than these specific parties.

Hea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 24, 2010

To the Board of Trustees
Constellation Schools: Madison Community Elementary
2015 West 95th Street
Cleveland, Ohio 44102

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Constellation Schools: Madison Community Elementary with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Constellation Schools: Madison Community Elementary's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Constellation Schools: Madison Community Elementary's management. Our responsibility is to express an opinion on the Constellation Schools: Madison Community Elementary's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Constellation Schools: Madison Community Elementary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Constellation Schools: Madison Community Elementary's compliance with those requirements.

In our opinion, the Constellation Schools: Madison Community Elementary complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Constellation Schools: Madison Community Elementary is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Constellation Schools: Madison Community Elementary as of and for the year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, audit committee, federal awarding agencies and pass-through agencies, management and the School's sponsor, and is not intended to be and should not be used by anyone other than these specific parties.

Hea & Associates, Inc.

**CONSTELLATION SCHOOLS: MADISON ELEMENTARY SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Cash Receipts	Cash Disbursements
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I Cluster:</i>				
Title I	84.010	2010	\$ 228,027	\$ 233,745
ARRA - Title I	84.389	2010	34,629	36,467
Total Title I Cluster			262,656	270,212
Title II-A - Improving Teacher Quality	84.367	2010	9,109	10,347
Total Title II-A - Improving Teacher Quality			9,109	10,347
<i>Special Education Cluster:</i>				
IDEA Part B	84.027	2010	26,538	26,538
ARRA - IDEA Part B	84.391	2010	28,039	34,210
Total IDEA Part B			54,577	60,748
Early Childhood Special Education	84.173	2010	75	0
Total Early Childhood Special Education			75	0
Total Special Education Cluster			54,652	60,748
Safe and Drug-Free Schools	84.186	2010	3,412	1,650
Total Safe and Drug-Free Schools			3,412	1,650
Technology Literacy Challenge Fund Grant	84.318	2010	1,444	2,027
Total Technology Literacy Challenge Fund Grant			1,444	2,027
ARRA - State Fiscal Stabilization Fund	84.394	2010	124,174	124,174
Total State Fiscal Stabilization Fund			124,174	124,174
Total U.S. Department of Education			455,447	469,158
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program (A)	10.553	2010	20,938	20,938
Total School Breakfast Program			20,938	20,938
National School Lunch Program (A)	10.555	2010	73,841	73,841
Total National School Lunch Program			73,841	73,841
Total Child Nutrition Cluster			94,779	94,779
Total U.S. Department of Agriculture			94,779	94,779
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 550,226	\$ 563,937

See Notes to the Schedule of Expenditures of Federal Awards

CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY

Notes to the Schedule of Expenditures of Federal Awards – Cash Basis

For the Fiscal Year Ended June 30, 2010

- (A) Federal money is commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
- (B) The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE's approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2010, there were no carryover of funds from 2009.

**CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title I Cluster CFDA #84.010 and #84.389; State Fiscal Stabilization Fund CFDA #84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

No Findings noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No Findings noted.



Mary Taylor, CPA
Auditor of State

MADISON COMMUNITY ELEMENTARY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 11, 2011**