CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2013

Constellation Schools

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

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

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Madison Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

December 9, 2013

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CONSTELLATION SCHOOLS: MADISON COMMUNITY ELEMENTARY
CUYAHOGA COUNTY

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Rea & associates a brighter way

INDEPENDENT AUDITOR'S REPORT

November 19, 2013

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

CPAs and business consultants
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Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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, 2013. 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 2013 include the following:

- In total, net position increased $92,032, which represents a 14.7% increase from 2012. This increase is due to an increase in basic state foundation revenues because on enrollment increases and collections of Casino tax revenues plus reduced levels of expenditure for staff, supplies and capital outlay. This was offset by the expiration of federal stimulus grant funding.

- Total assets decreased $41,932, which represents a 1.1% decrease from 2012. This is due to an increase in cash offset by depreciation and amortization expense.

- Liabilities decreased $133,964, which represents a 4.3% decrease, from 2012. Decreases in deferred revenues, loans payable, leases payable and bonds payable were slightly offset by increased vendor payables.

- Operating revenues increased by $69,951, which represents a 3.2% increase from 2012. This increase is a result of increased enrollment offset plus the collection of Casino tax revenues.

- Expenses decreased by $155,900 which represents a 5.6% decrease from 2012. Operating expense decreases are due to the expiration of federal stimulus programs and the resulting staff reductions. Other reductions occurred in the purchase of supplies and capital equipment.

- Non-operating revenues decreased by $108,983, which represents a 19.1% decrease from 2012. This decrease is due to and the expiration of federal stimulus programs and minor state grants.

Using this Financial Report

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

Statement of Net Position

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

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

	2013	2012	Change	%
Assets				
Cash	$606,171	$522,062	$84,109	16.1%
Other Current Assets	126,456	150,802	(24,346)	-16.1%
Non-Current Assets	769,981	763,695	6,286	0.8%
Capital Assets	2,214,616	2,322,597	(107,981)	-4.6%
Total Assets	3,717,224	3,759,156	(41,932)	-1.1%
Liabilities				
Current Liabilities	450,516	504,937	(54,421)	-10.8%
Long-Term Liabilities	2,548,830	2,628,373	(79,543)	-3.0%
Total Liabilities	2,999,346	3,133,310	(133,964)	-4.3%
Net Position				
Net Investment in Capital Assets	(38,497)	(62,124)	23,627	38.0%
Net Restricted for Debt Purposes	216,022	194,388	21,634	11.1%
Unrestricted	540,353	493,582	46,771	9.5%
Total Net Position	$717,878	$625,846	$92,032	14.7%

Net Position increased $92,032 in fiscal year 2013 due primarily to increased enrollment, collection of casino taxes and reductions of expenditures. The effect was partially offset by the expiration of federal stimulus programs. Cash increased $84,109; bond escrow accounts decreased $71; due from other governments decreased $7,212; accounts receivable increased $3,157; prepaid expenses decreased $20,220; bond reserve accounts increased $16,768; deferred charges decreased $10,481 and net capital assets decreased $107,982 from 2012. Accounts payable increased $14,528; interest payable decreased $1,304; loans payable decreased $72,733; deferred revenues decreased $160; equipment leases payable decreased $41,379 and bonds payable decreased $32,915 from 2012.

Statement of Revenues, Expenses and Changes in Net Position

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

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

	2013	2012	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$2,215,908	$2,147,079	$68,829	3.2%
Other Operating Revenues	54,743	53,621	1,122	2.1%
Total Operating Revenues	2,270,651	2,200,700	69,951	3.2%
Federal and State Grants	461,236	570,219	(108,983)	-19.1%
Total Non-Operating Revenues	461,236	570,219	(108,983)	-19.1%
Total Revenues	2,731,887	2,770,919	(39,032)	-1.4%
Expenses				
Salaries	1,055,110	1,209,695	(154,585)	-12.8%
Fringe Benefits	317,441	392,984	(75,543)	-19.2%
Purchased Services	783,668	688,906	94,762	13.8%
Materials and Supplies	93,488	129,407	(35,919)	-27.8%
Capital Outlay	23,614	26,384	(2,770)	-10.5%
Depreciation and Amortization	125,745	109,563	16,182	14.8%
Other Expenses	240,789	238,816	1,973	0.8%
Total Expenses	2,639,855	2,795,755	(155,900)	-5.6%
Changes in Net Position	92,032	(24,836)	116,868	470.6%
Net Position: Beginning of the Year	625,846	650,682	(24,836)	-3.8%
Net Position: End of Year	$717,878	$625,846	$92,032	14.7%

Net Position increased in fiscal year ended June 30, 2013 and decreased in fiscal year ended June 30, 2012. This is due to increased enrollment, changes in federal stimulus programs, changes in services provided to other schools and improved operating efficiencies. 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 decreased by $39,032 from 2012 to 2013. The most significant changes in revenues are an increase of $62,492 in State Foundation and Poverty Based Assistance funds, $6,337 in Casino Tax revenues and decreased Federal Funds (expiration of federal stimulus grants) and minor state grants totaling $108,983. Other revenues increased $1,122 mostly due to miscellaneous other items.

Total expenses decreased $155,900 from 2012 to 2013. This is a direct result of the reduction of programs funded by federal stimulus monies offset by normal annual increases in operating costs and increased services for an increased enrollment. Salaries and Fringe Benefits decreased $230,128 due to staffing changes and annual increases. Purchased services increased $94,762 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies decreased $35,919 due to decreased purchases of instruction supplies, software and text books. Capital Outlay decreased $2,770 due to reduced purchases of furniture and equipment for classrooms. Depreciation and amortization increased $16,182 as a direct result of building improvements and leased technology equipment. Other Expenses increased $1,973 due to increased interest expenses and decreased audit fees.

Capital Assets

As of June 30, 2013, MDCE had $2,214,616 invested in land, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a $107,981 decrease from June 30, 2012. The following schedule provides a summary of Capital Assets as of June 30, 2013 and 2012 for MDCE.

	2013	2012	Change	%
Capital Assets (net of depreciation)				
Land	$80,000	$80,000	$0	0.0%
Building	621,000	639,000	(18,000)	-2.8%
Building Improvements	1,339,056	1,377,306	(38,250)	-2.8%
Technology and Software	127,476	166,181	(38,705)	-23.3%
Furniture and Equipment	47,084	60,110	(13,026)	-21.7%
Net Capital Assets	$2,214,616	$2,322,597	($107,981)	-4.6%

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

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, 2013 is $2,506,260. For more information on debt service see the Notes to the Financial Statements.

Equipment Lease

During fiscal year 2012 MDCE entered into a lease agreement with Winthrop Resources Corporation for $179,855 worth of technology equipment. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term is for a total of 48 months, carries an interest rate of 7.38% per annum and will expire in January 2016 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2013 on the lease payable is $122,113.

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 297 students, 29 teaching staff members and expenses of $2,639,855. 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 continues to recover from a major economic downturn, the Board of Directors, school management and school staff have worked diligently to ensure that the school maintains the high level of educational services and financial integrity that we have always provided. Our goal is to provide a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for 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 Position
As of June 30, 2013

Assets:	
Current Assets:	
Cash	$606,171
Escrow Accounts	108,114
Due from Other Governments	15,185
Accounts Receivable	3,157
Total Current Assets	732,627
Non-Current Assets:	
Security Deposit	29,338
Bond Reserve Accounts	483,847
Deferred Charges	256,796
Non-Depreciable Capital Assets	80,000
Capital Assets (Net of Accumulated Depreciation)	2,134,616
Total Non-Current Assets	2,984,597
Total Assets	3,717,224
Liabilities:	
Current Liabilities:	
Accounts Payable	22,624
Interest Payable	87,704
Deferred Revenue	3,170
Loans Payable	257,475
Capital Lease Equipment Payable	44,538
Capital Lease Bond Notes Payable	35,005
Total Current Liabilities	450,516
Long Term Liabilities:	
Capital Lease Equipment Payable	77,575
Capital Lease Bond Notes Payable	2,471,255
Total Long Term Liabilities	2,548,830
Total Liabilities	2,999,346
Net Position:	
Net Investment in Capital Assets	(38,497)
Net Restricted for Debt Purposes	216,022
Unrestricted	540,353
Total Net Position	$717,878

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 Position
For the Fiscal Year Ended June 30, 2013

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$2,215,908
Other Operating Revenues	54,743
Total Operating Revenues	2,270,651
Operating Expenses:	
Salaries	1,055,110
Fringe Benefits	317,441
Purchased Services	783,668
Materials and Supplies	93,488
Capital Outlay	23,614
Depreciation and Amortization	125,745
Other Operating Expenses	43,513
Total Operating Expenses	2,442,579
Operating Loss	(171,928)
Non-Operating Revenues & Expenses:	
Interest Expense	(197,276)
Federal and State Grants	461,236
Total Non-Operating Revenues & Expenses	263,960
Change in Net Position	92,032
Net Position at Beginning of the Year	625,846
Net Position at End of Year	$717,878

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, 2013

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$2,215,908
Cash Payments to Suppliers for Goods and Services	(1,232,371)
Cash Payments to Employees for Services	(1,055,110)
Other Operating Revenues	54,583
Net Cash Used for Operating Activities	(16,990)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants Received	470,684
Net Cash Provided by Noncapital Financing Activities	470,684
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(7,282)
Decrease in Escrow Funds	71
Increase in Bond Reserve Accounts	(16,768)
Bond Principal Payments	(32,915)
Bond Interest Payments	(176,005)
Loan Principal Payments	(72,733)
Loan Interest Payments	(11,892)
Equipment Lease Principal Payments	(41,379)
Equipment Lease Interest Payments	(10,682)
Net Cash Used for Capital and Related Financing Activities	(369,585)
Net Increase in Cash	84,109
Cash at Beginning of Year	522,062
Cash at End of Year	$606,171

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, 2013
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($171,928)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation and Amortization	125,745
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(2,236)
(Increase) in Accounts Receivable	(3,157)
Decrease in Prepaid Expenses	20,220
Increase in Accounts Payable	14,526
(Decrease) in Deferred Revenue	(160)
Total Adjustments	154,938
Net Cash Used for Operating Activities	($16,990)

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

I. Description of the School and Reporting Entity

Constellation Schools: Madison Community Elementary (MDCE) is a nonprofit corporation established December 5, 2003 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.

MDCE was approved for operation as Madison Community School on January 20, 2004 under a contract between the Governing Authority of MDCE and Lucas County Educational Service Center (LCESC) as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2017. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services.

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

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-nine certificated full time teaching personnel and seven support staff who provide services to 297 students. During 2013, the board members for MDCE also serve as the board for Constellation Schools: Old Brooklyn Community Elementary, Constellation Schools: Old Brooklyn Community Middle, Constellation Schools: Stockyard Community Elementary and Constellation Schools: Stockyard Community Middle.

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. 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 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. 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.

3. Change in Accounting Principles

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

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

4. Cash

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

5. 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.

6. Due From Other Governments and Accounts Receivable

Monies due MDCE for the year ended June 30, 2013 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.

7. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of $1,000 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

8. Intergovernmental Revenues

MDCE currently participates in the State Foundation Program, the State Poverty Based Assistance Program and Casino Tax Distribution. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. MDCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, Race to the Top and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2013 school year totaled $2,677,144.

9. 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 2013 school.

10. 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.

11. Use of Estimates

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

12. Deferred Revenue

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

13. Deferred Charges

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

III. Deposits

At fiscal year end June 30, 2013, the carrying amount of MDCE's deposits totaled $606,171 and its bank balance was $624,775. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2013, $374,775, 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 $591,961 at fiscal year end June 30, 2013. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

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

IV. Purchased Services

Purchased Services include the following:

Instruction	$89,316
Pupil Support Services	125,314
Staff Development & Support	34,779
Administrative	343,079
Occupancy Costs	80,556
Food Services	109,344
Student Activities	1,280
Total Purchased Services	$783,668

V. Capital Assets

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

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
Capital Assets Not Being Depreciated:				
Land	$80,000	$0	$0	$80,000
Capital Assets Being Depreciated:				
Building	720,000	0	0	720,000
Building Improvements	1,497,356	0	0	1,497,356
Technology and Software	260,590	16,438	(14,618)	262,410
Furniture and Equipment	106,990	0	(4,000)	102,990
Total Capital Assets Being Depreciated	2,584,936	16,438	(18,618)	2,582,756
Less Accumulated Depreciated:				
Building	(81,000)	(18,000)	0	(99,000)
Building Improvements	(120,050)	(38,250)	0	(158,300)
Technology and Software	(94,409)	(44,059)	3,534	(134,934)
Furniture and Equipment	(46,880)	(14,955)	5,929	(55,906)
Total Accumulated Depreciation	(342,339)	(115,264)	9,463	(448,140)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	2,242,597	(98,826)	(9,155)	2,134,616
Total Capital Assets, Net of Accumulated Depreciation	$2,322,597	($98,826)	($9,155)	$2,214,616

VI. Capital Equipment Lease Payable

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

Assets of technology equipment totaling $179,855 have been capitalized. This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2013 totaled $41,379 and interest paid totaled $10,682. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2014	$44,538	$7,524	$52,062
2015	47,938	4,124	52,062
2016	29,637	734	30,371
Total	$122,113	$12,382	$134,495

VII. 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, 2013 is $2,506,260 and interest payable due July 1, 2013 is $86,954. Interest expense during 2013 totaled $174,956. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/12	Additions	Deletions	6/30/13	Due In One Year
Lease Revenue Bonds	$2,539,175	$0	$32,915	$2,506,260	$35,005

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during 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, 2013 was $47,166. The Bond Indenture requires MDCE to meet certain covenants. As of June 30, 2013 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, 2013. Lease payments were made by MDCE to cover bond interest and administrative fees due in July 2013 and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term. Lease payments made during 2013 to fund interest, reserves and bond expenses totaled $233,136. The balances of escrow and reserve accounts as of June 30, 2013 are as follows:

Bond Fund	$104,457
Expense Fund	3,657
Total Bond Escrow Accounts	$108,114
Reserve Fund	$257,001
Supplemental Reserve	84,324
Operating Reserve	142,522
Total Bond Reserve Accounts	$483,847

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

Land	$80,000
Building	720,000
Building Improvements	1,497,356
Bond Finance Fees	314,444
Sub-Total	2,611,800
Accumulated Depreciation/Amortization	(314,948)
Net Book Value	$2,296,852

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
2014	$35,005	$173,907	$208,912
2015	37,095	171,675	208,770
2016	39,185	169,310	208,495
2017	41,797	166,812	208,609
2018	44,409	164,148	208,557
2019 - 2023	271,681	628,223	899,904
2024 - 2028	380,354	663,315	1,043,669
2029 - 2033	533,959	510,149	1,044,108
2034 - 2038	1,122,775	295,359	1,418,134
Total	$2,506,260	$2,942,898	$5,449,158

VIII. Loans Payable

On June 30, 2011 MDCE executed two unsecured promissory notes with Constellation Schools: Westpark Community Elementary and Constellation Schools: Puritas Community Elementary in the amount of $200,000 to each school for a total of $400,000. Each note carries interest at 4% per annum. Interest only was charged through September 30, 2011 at which time interest and principal payments began. Payments are based on a five year amortization schedule with a balloon payment for the principal balance due at June 30, 2013. During September 2013 the notes were extended with the same amortization schedule through June 30, 2014 at which time the remaining principal balance will be due. As of June 30, 2013, the combined principal balance owed is $257,475 under the notes.

IX. 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 2013, 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.

2. Workers' Compensation

MDCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been three claims filed by MDCE employees with the Ohio Worker's Compensation System between January 1, 2008 and June 30, 2013. The total payments made for this claim have been $4,409. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MDCE as June 30, 2013.

3. Employee Medical, Dental, Vision and Life Benefits

MDCE 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 MDCE for the fiscal year is $143,105.

X. 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.

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

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

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

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

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

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

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

MDCE's required contributions for pension obligations for the fiscal years ended June 30, 2013, 2012 and 2011 were $127,294, $146,017 and $148,901 respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

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 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, 2012 (the latest year available), the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. MDCE's contributions to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were $10,630, $12,108 and $11,359, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

XI. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2013, 2012 and 2011 MDCE's contributions to post-employment health care were $9,792, $11,232 and $11,454, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2012 the actuarially required allocation is .74%. For the fiscal years ended June 30, 2013, 2012 and 2011 MDCE contributions to Medicare Part B were $562, $657 and $617, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012 the health care allocation is 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at $20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2013, 2012 and 2011 MDCE contributions to the Health Care Plan, including the surcharge were $1,452 $2,544 and $2,386, respectively; 8.33% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011. $1,331 representing the unpaid surcharge due for fiscal year 2013 is recorded as a liability within the respective funds.

XII. 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, 2013.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2013 have not been calculated as of the audit date and will be included in the financial activity for fiscal year 2014.

XIII. Sponsorship and Management Agreements

MDCE 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, 2017. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2013 Foundation payments received by MDCE, from the State of Ohio. The total amount due from MDCE for fiscal year 2013 was $33,144, all of which was paid prior to June 30, 2013

MDCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2013. The agreement was for a period of one year, effective July 1, 2010. Management fees are calculated as 6.25% of the Fiscal Year 2013 Foundation and State Fiscal Stabilization Funds payment received by MDCE from the State of Ohio plus a fixed fee of $144,375. The total amount due from MDCE for the fiscal year ending June 30, 2013 was $282,473 all of which was paid prior to June 30, 2013.

XIV. 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.

November 19, 2013

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio

November 19, 2013

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

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

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

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

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

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

Rea & Associates, Inc.

Medina, Ohio

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CONSTELLATION SCHOOLS: 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
DECEMBER 19, 2013

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