

**CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
CUYAHOGA COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2015



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Collinwood Village Academy
716 East 156th Street
Cleveland, OH 44110

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Collinwood Village Academy, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 19, 2016

**CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
CUYAHOGA COUNTY, OHIO**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	11
Notes to the Basic Financial Statements	15
Required Supplementary Information:	
Schedule of the School's Proportionate Share of the Net Pension Liability	35
Schedule of the School's Contributions	36
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 <i>Government Auditing Standards</i>	37

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December 10, 2015

To the Board of Trustees
Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
716 East 156th Street
Cleveland, OH 44110

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Constellation Schools: Collinwood Village Academy, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of a Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School's Contributions* on pages 5–10, 35, and 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Cambridge, Ohio

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CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

Financial Highlights

Key financial highlights for 2015 include the following:

- The school in its' fourth year of operations increased enrollment to 113 students serving grades kindergarten through five.
- In total, net position increased \$106,878 which represents a 12.4% increase from 2014. The school received an increase in state basic aid funding and casino taxes as well as services to other schools.
- Total assets and deferred outflows of resources increased \$110,086 which represents a 55.3% increase from 2014. This includes decreases in due from other governments and net capital assets with increases in cash and accounts receivable.
- Liabilities and deferred inflows of resources increased \$3,208 which represents a 0.3% increase from 2014. Increases occurred in vendors payables and deferred inflow of resources with a decrease in pension liability.
- Operating revenues increased \$155,895 which represents a 19.0% increase from 2014. The increase is primarily due to increased enrollment which provided for an increase in state basic aid. Additional funding came from casino revenues and services provided to other schools.
- Operating expenses increased slightly by \$9,464 which represents an increase of 0.9% from 2014. Increases occurring in most expense categories are directly related to providing services for an increased student enrollment with decreases in materials, supplies, technology and equipment due to prior year purchases.
- Non-operating revenues decreased \$57,386 which represents a 25.5% decrease from 2014. A decrease in federal Public Charter School Program grant funds occurred due to CVA receiving the final grant draw downs in 2014.
- During 2015, CVA implemented GASB 68, which requires changes in the manner for which pension expenses and liabilities are reported. Net Position balances for 2014 were restated and pension expenses during 2015 were reduced.

Using this Financial Report

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

Statement of Net Position

The Statement of Net Position looks at how well CVA has performed financially through June 30, 2015. This statement includes all of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Position for fiscal years ended June 30, 2015 and 2014 for CVA.

	<u>2015</u>	<u>Restated 2014</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$185,534	\$78,269	\$107,265	137.0%
Other Current Assets	23,714	19,706	4,008	20.3%
Non-Current Assets	258	258	0	0.0%
Capital Assets	39,548	50,004	(10,456)	-20.9%
Deferred Outflow of Resources	60,175	50,906	9,269	18.2%
Total Assets and Deferred Outflow of Resources	<u>309,229</u>	<u>199,143</u>	<u>110,086</u>	<u>55.3%</u>
Liabilities				
Current Liabilities	17,628	6,580	11,048	167.9%
Long-Term Liabilities	886,407	1,056,187	(169,780)	-16.1%
Deferred Inflow of Resources	161,940	0	161,940	100.0%
Total Liabilities and Deferred Inflow of Resources	<u>1,065,975</u>	<u>1,062,767</u>	<u>3,208</u>	<u>0.3%</u>
Net Position				
Net Investment in Capital Assets	37,784	45,385	(7,601)	-16.7%
Unrestricted	<u>(794,530)</u>	<u>(909,009)</u>	<u>114,479</u>	<u>12.6%</u>
Total Net Position	<u><u>(\$756,746)</u></u>	<u><u>(\$863,624)</u></u>	<u><u>\$106,878</u></u>	<u><u>12.4%</u></u>

Net Position increased \$106,878, due primarily to an enrollment increase during 2015. For assets, cash increased \$107,265; due from other governments increased \$4,008, net capital assets decreased \$10,456 and deferred outflow of resources increased \$9,269 from 2014. For liabilities, accounts payable increased \$8,125; due to other governments increased \$4,155, interest payable decreased \$18; unearned revenue decreased \$125, leases payable decreased \$2,854, pension liability decreased \$168,015 and deferred inflow of resources increased \$161,940 from 2014.

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports operating and non-operating activities for the fiscal year ended June 30, 2015.

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

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$928,407	\$796,495	\$131,912	16.6%
Other Operating Revenues	49,085	25,102	23,983	95.5%
Total Operating Revenues	<u>977,492</u>	<u>821,597</u>	<u>155,895</u>	<u>19.0%</u>
Federal and State Grants	167,859	225,245	(57,386)	-25.5%
Total Non-Operating Revenues	<u>167,859</u>	<u>225,245</u>	<u>(57,386)</u>	<u>-25.5%</u>
Total Revenues	<u>1,145,351</u>	<u>1,046,842</u>	<u>98,509</u>	<u>9.4%</u>
Expenses				
Salaries	419,795	384,566	35,229	9.2%
Fringe Benefits	124,422	111,756	12,666	11.3%
Change in Net Pension Liability	(15,344)	0	(15,344)	100.0%
Purchased Services	418,074	386,609	31,465	8.1%
Materials and Supplies	42,728	29,646	13,082	44.1%
Capital Outlay	929	52,118	(51,189)	-98.2%
Depreciation	17,835	18,939	(1,104)	-5.8%
Other Expenses	30,034	45,375	(15,341)	-33.8%
Total Expenses	<u>1,038,473</u>	<u>1,029,009</u>	<u>9,464</u>	<u>0.9%</u>
Changes in Net Position	<u>\$106,878</u>	<u>\$17,833</u>	<u>\$89,045</u>	<u>499.3%</u>

Net Position increased in both fiscal years 2015 and 2014 for a combined net increase. These combined increases are due to enrollment increases. Although certain expenditures such as salaries will increase as the number of classes increase, other costs remain fixed such as facilities costs resulting in more efficient operations.

Total revenue increased \$98,509 from 2014 to 2015. The most significant changes in revenues are increases of \$131,912 in State Foundation funding due to enrollment increases and \$33,000 for services to other schools. A decrease occurred in federal grants totaling \$54,431 due to final draws of federal charter school program funds in 2014, as well as decreases in collections of materials fees, student food service payments and miscellaneous income.

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

Expenses increased \$9,464 from 2014 to 2015 due to the increase in enrollment plus the final use of federal charter school program funds in 2014. Salaries and Fringe Benefits increased \$47,895 due to staff increases and annual increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68. Purchased services increased \$31,465 due to increases in instructional services, student support services, administrative expenses, facility costs and food services. Materials and Supplies increased \$13,082 due to purchases of instruction software and text books. Capital Outlay decreased \$51,189 due to prior year's purchases of classroom and administrative technology, furniture and equipment purchases with federal grant funds. Depreciation decreased \$1,104 and Other Expenses decreased \$15,341 due to reductions in insurance premiums.

Capital Assets

As of June 30, 2015, CVA had \$39,548 invested in technology, software, furniture and equipment, net of depreciation. This is a \$10,456 decrease from June 30, 2014.

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

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Technology and Software	\$9,282	\$18,340	(\$9,058)	-49.4%
Furniture and Equipment	<u>30,266</u>	<u>31,664</u>	<u>(1,398)</u>	<u>-4.4%</u>
Net Capital Assets	<u>\$39,548</u>	<u>\$50,004</u>	<u>(\$10,456)</u>	<u>-20.9%</u>

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

Net Pension Liabilities

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

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

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

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

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

As a result of implementing GASB 68, CVA is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$139,892 to (\$863,624).

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$50,906 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required plan contributions. Under GASB 68, pension expense represents additional amounts earned,

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$36,398. Consequently, in order to compare 2015 total program expense to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$1,038,245
Pension expense under GASB 68	(36,398)
2015 contractually required contribution	<u>51,742</u>
Adjusted 2015 program expenses	1,053,589
Total 2014 program expenses under GASB 27	<u>1,028,577</u>
Increase in program expenses not related pension	<u><u>\$25,012</u></u>

Current Financial Issues

Constellation Schools: Collinwood Village Academy opened in August 2011. The school has grown from 59 students, 6 teaching staff members and expenses of \$721,949 to a total of 113 students, 11 teaching staff members and expenses of \$1,038,473. The school currently serves students in grades kindergarten through six and is budgeted for 135 student in 2016.

The Board of Directors, school management and school staff continue to work diligently to ensure that CVA maintains the highest level of educational services and financial integrity that we have always provided. Our goal continues to be providing a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

Contacting the School's Financial Management

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

Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2015

Assets:

Current Assets:

Cash	\$185,534
Accounts Receivable	2,992
Due from Other Governments	20,722
<i>Total Current Assets</i>	<u>209,248</u>

Non-Current Assets:

Security Deposit	258
Capital Assets (Net of Accumulated Depreciation)	39,548
<i>Total Non-Current Assets</i>	<u>39,806</u>
<i>Total Assets</i>	<u>249,054</u>

Deferred Outflow of Resources:

Pension (STRS & SERS)	60,175
<i>Total Deferred Outflow of Resources</i>	<u>60,175</u>
<i>Total Assets and Deferred Outflow of Resources</i>	<u>309,229</u>

Liabilities:

Current Liabilities:

Accounts Payable	11,053
Due to Other Governments	4,155
Interest Payable	11
Unearned Revenue	645
Capital Lease Equipment Payable	1,764
<i>Total Current Liabilities</i>	<u>17,628</u>

Long Term Liabilities:

Net Pension Liability	886,407
<i>Total Long Term Liabilities</i>	<u>886,407</u>
<i>Total Liabilities</i>	<u>904,035</u>

Deferred Inflow of Resources:

Pension (STRS & SERS)	161,940
<i>Total Deferred Inflow of Resources</i>	<u>161,940</u>
<i>Total Liabilities and Deferred Inflow of Resources</i>	<u>1,065,975</u>

Net Position:

Net Investment in Capital Assets	37,784
Unrestricted	(794,530)
<i>Total Net Position</i>	<u>(\$756,746)</u>

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

Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$928,407
Other Operating Revenues	<u>49,085</u>

<i>Total Operating Revenues</i>	<u>977,492</u>
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Operating Expenses:

Salaries	419,795
Fringe Benefits	124,422
Change in Net Pension Liability	(15,344)
Purchased Services	418,074
Materials and Supplies	42,728
Capital Outlay	929
Depreciation	17,835
Other Operating Expenses	<u>29,806</u>

<i>Total Operating Expenses</i>	<u>1,038,245</u>
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Operating Loss	<u>(60,753)</u>
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Non-Operating Revenues & (Expenses):

Interest Expense	(228)
Federal and State Grants	<u>167,859</u>

<i>Total Non-Operating Revenues & Expenses</i>	<u>167,631</u>
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Change in Net Position	<u>106,878</u>
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Net Position at Beginning of the Year - Restated (See Note II.3.)	<u>(863,624)</u>
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Net Position at End of Year	<u><u>(\$756,746)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$919,669
Cash Payments to Suppliers for Goods and Services	(601,316)
Cash Payments to Employees for Services	(419,795)
Other Operating Revenues	<u>53,770</u>
Net Cash Used for Operating Activities	<u>(47,672)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>165,416</u>
Net Cash Provided by Noncapital Financing Activities	<u>165,416</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(7,379)
Equipment Lease Principal Payments	(2,854)
Equipment Lease Interest Payments	<u>(246)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(10,479)</u>
Net Increase in Cash	107,265
Cash at Beginning of Year	<u>78,269</u>
Cash at End of Year	<u><u>\$185,534</u></u>

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

Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015
(Continued)

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

Operating Loss	(\$60,753)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	17,835
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments	2,591
(Increase) in Deferred Outflows - Pensions	(9,269)
Increase in Accounts Payable	8,124
(Decrease) in Unearned Revenue	(125)
(Decrease) in Net Pension Liability	(168,015)
Increase in Deferred Inflows - Pensions	161,940

Total Adjustments	13,081
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Net Cash Used for Operating Activities	(\$47,672)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

I. Description of the School and Reporting Entity

Constellation Schools: Collinwood Village Academy (CVA), is a nonprofit corporation established on December 22, 2008 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 October 17, 2012, CVA was issued a determination letter of 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 CVA. CVA, which is part of Ohio's education program, is independent of any school district. CVA may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of CVA.

CVA was approved for operation under a contract dated May 12, 2011 between the Governing Authority of CVA and Buckeye Community Hope Foundation (BCHF) (the Sponsor). The contract with BCHF has an expiration date of June 30, 2020. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XII for further discussion of the sponsor services.

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

CVA 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 CVA instructional facility staffed by 11 certificated full time teaching personnel and 3 support staff who provided services to 113 students. During 2015, the board members for CVA also serve as the board for Constellation Schools: Puritas Community Middle; Constellation Schools: Westside Community School of the Arts and Constellation Schools: Stockyard Community Middle.

II. Summary of Significant Accounting Policies

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

3. Change in Accounting Principles

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

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

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

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

Net Position Previously Reported as of June 30, 2014	\$139,892
Addition of Net Pension Liability	(1,054,422)
Addition of Deferred Outflow of Resources - Pension	<u>50,906</u>
Restated Net Position at July 1, 2014	<u>(\$863,624)</u>

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

4. Cash

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

5. Budgetary Process

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

6. Due From Other Governments and Accounts Receivable

Monies due CVA for the year ended June 30, 2015 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. Depreciation of technology, software, furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets or less. Estimated useful lives are as follows:

Capital Asset Classification	Years
Technology and Software	3 to 5
Furniture and Equipment	10

8. Intergovernmental Revenues

CVA 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. CVA also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2015 school year totaled \$1,096,266.

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

9. Private Grants and Contributions

CVA 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. CVA did not receive any grants and contributions from private sources for the 2015 school year.

10. Compensated Absences

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

11. Pensions

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

12. Use of Estimates

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

13. Unearned Revenue

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

14. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

III. Deposits

At fiscal year end June 30, 2015, the carrying amount of CVA's deposits totaled \$185,534 and its bank balance was \$208,397. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2015, none of the bank balance was exposed to custodial risk as discussed below, while \$208,397 was covered by the Federal Depository Insurance Corporation.

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

IV. Capital Assets

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

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Capital Assets Being Depreciated:				
Technology and Software	\$47,641	\$4,800	(\$748)	\$51,693
Furniture and Equipment	38,799	2,579	0	41,378
Total Capital Assets Being Depreciated	86,440	7,379	(748)	93,071
Less Accumulated Depreciation:				
Technology and Software	(29,301)	(13,858)	748	(42,411)
Furniture and Equipment	(7,135)	(3,977)	0	(11,112)
Total Accumulated Depreciation	(36,436)	(17,835)	748	(53,523)
Total Capital Assets, Net of Accumulated Depreciation	\$50,004	(\$10,456)	\$0	\$39,548

V. Operating Lease

CVA leases its facilities at 716 East 156th Street, Cleveland from The Roman Catholic Diocese of Cleveland, St. Mary Parish (owner) under a lease agreement that expires June 30, 2015. During 2015 monthly rent was \$6,000 and total rents paid during the fiscal year totaled \$72,000. CVA was also responsible for reimbursing the owner for operating costs including utilities, property insurance, snow removal, trash removal, cleaning and security. The lease has been extended through June 30, 2018. The monthly rent has increased to \$8,250 or \$99,000 per year with reimbursements to the owner limited to utilities.

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

VI. Purchased Services

Purchased Services include the following:

Instruction	\$27,756
Pupil Support Services	70,950
Staff Development & Support	27,811
Administrative	127,624
Occupancy Costs	120,975
Food Services	42,517
Student Activities	<u>441</u>
 Total Purchased Services	 <u><u>\$418,074</u></u>

VII. Capital Equipment Lease Payable

During fiscal year 2012, CVA 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 \$10,708 have been capitalized. This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2015 totaled \$2,854 and interest paid totaled \$246. Future minimum lease payments for principal and interest under the capital lease are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>\$1,764</u>	<u>\$44</u>	<u>\$1,808</u>
Total	<u><u>\$1,764</u></u>	<u><u>\$44</u></u>	<u><u>\$1,808</u></u>

VIII. Risk Management

1. Property and Liability Insurance

CVA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2015, CVA contracted with Traveler's Property Casualty Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile insurance.

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

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

CVA makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by CVA employees with the Ohio Worker's Compensation System between January 1, 2010 and June 30, 2015. The total payments made for these claims have been \$513. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of CVA as June 30, 2015.

3. Employee Medical, Dental, Vision and Life Benefits

CVA 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 CVA for the fiscal year is \$52,656.

IX. Defined Benefit Pension Plans

1. Net Pension Liability

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

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

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

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

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

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources. Age and service requirements for retirement are as follows:

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

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

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

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

CVA's contractually required contribution to SERS was \$5,140 for fiscal year 2015.

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

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

CVA's contractually required contribution to STRS was \$46,602 for fiscal year 2015.

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

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 796,170	\$ 90,237	\$ 886,407
Proportion of the Net Pension Liability	0.00327326%	0.00178300%	
Pension Expense	\$ 30,659	\$ 5,739	\$ 36,398

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 7,665	\$ 768	\$ 8,433
School contributions subsequent to the measurement date	<u>46,602</u>	<u>5,140</u>	<u>51,742</u>
Total Deferred Outflows of Resources	<u>\$ 54,267</u>	<u>\$ 5,908</u>	<u>\$ 60,175</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 147,294</u>	<u>\$ 14,646</u>	<u>\$ 161,940</u>

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

\$51,742 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2016	\$ (34,907)	\$ (3,470)	\$ (38,377)
2017	(34,907)	(3,470)	(38,377)
2018	(34,907)	(3,470)	(38,377)
2019	(34,908)	(3,468)	(38,376)
	\$ (139,629)	\$ (13,878)	\$ (153,507)

5. Actuarial Assumptions - SERS

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

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

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

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

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 128,741	\$ 90,237	\$ 57,851

6. Actuarial Assumptions - STRS

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

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY
- A Community School -
Cuyahoga County, Ohio

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

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

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School's proportionate share of the net pension liability	\$ 1,139,804	\$ 796,170	\$ 505,571

X. Post-Employment Benefits

1. School Employees Retirement System

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

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

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

CVA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$1,237, \$990 and \$805, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

2. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. CVA's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$3,327 and \$3,031, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

XI. Contingencies

1. Grants

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

CONSTELLATION SCHOOLS: COLLINWOOD VILLAGE ACADEMY

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

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

2. Enrollment FTE

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

XII. Sponsorship and Management Agreements

CVA entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective until June 30, 2020. Sponsorship fees are calculated as 3% of the Fiscal Year 2015 Foundation payments received by CVA, from the State of Ohio. The total amount due from CVA for fiscal year 2015 was \$27,125, all of which was paid prior to June 30, 2015.

CVA entered into an agreement with Constellation Schools LLC to provide legal, financial, and business management services for fiscal year 2015. The agreement was for a period of one year, effective July 1, 2014. Management fees are calculated as 6.25% of the Fiscal Year 2015 Foundation payments received by CVA from the State of Ohio plus a fixed fee of \$57,750. The total fee cannot exceed twice the fixed fee. The total amount due from CVA for the fiscal year ending June 30, 2015 was \$115,195. During the 2015 year CS issued credits totaling \$25,000 to CVA to reduce total management fees. After application of the credits, the total amount due from CVA for the fiscal year ending June 30, 2015 was \$90,195 all of which was paid prior to June 30, 2015.

XIII. Subsequent Event

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

Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
 Required Supplementary Information
 Schedule of the School's Proportionate Share of the Net Pension Liability
 Last Two Fiscal Years (1)

	<u>2014</u>	<u>2013</u>
<i>State Teachers Retirement System (STRS)</i>		
School's proportion of the net pension liability (asset)	0.00327326%	0.00327326%
School's proportionate share of the net pension liability (asset)	\$796,170	\$948,393
School's covered-employee payroll	\$332,715	\$303,115
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	239.29%	312.88%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
<i>School Employees Retirement System (SERS)</i>		
School's proportion of the net pension liability (asset)	0.00178300%	0.00178300%
School's proportionate share of the net pension liability (asset)	\$90,237	\$106,029
School's covered-employee payroll	\$55,216	\$45,079
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	163.42%	235.20%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
 Required Supplementary Information
 Schedule of the School's Contributions
 Last Four Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$46,602	\$43,253	\$39,405	\$27,647
Contributions in Relation to the Contractually Required Contribution	<u>(46,602)</u>	<u>(43,253)</u>	<u>(39,405)</u>	<u>(27,647)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's covered-employee payroll	\$332,871	\$332,715	\$303,115	\$212,669
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%
<i>School Employees Retirement System (SERS)</i>				
Contractually required contribution	\$5,140	\$7,653	\$6,239	\$5,174
Contributions in relation to the contractually required contribution	<u>(5,140)</u>	<u>(7,653)</u>	<u>(6,239)</u>	<u>(5,174)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's covered-employee payroll	\$39,000	\$55,216	\$45,079	\$38,468
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

(1) Information prior to 2012 is not available.

December 10, 2015

To the Board of Trustees
Constellation Schools: Collinwood Village Academy
Cuyahoga County, Ohio
716 East 156th Street
Cleveland, OH 44110

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Constellation Schools: Collinwood Village Academy, Cuyahoga County, Ohio (the “School”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated December 10, 2015, in which we noted the School restated their June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, “*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*”, and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.”

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Cambridge, Ohio



Dave Yost • Auditor of State

COLLINWOOD VILLAGE ACADEMY

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
FEBRUARY 2, 2016**