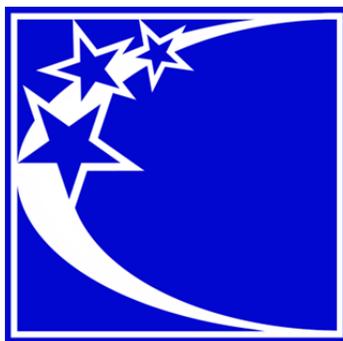


**CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
RICHLAND COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2012



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, Ohio 44906

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Mansfield Community Elementary, Richland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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: Mansfield Community Elementary is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 29, 2013

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**CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
RICHLAND COUNTY**

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November 27, 2012

The Board of Trustees
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, Ohio 44906

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Mansfield Community Elementary, Richland County, Ohio (the School), as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2012, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Kea & Associates, Inc.

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

The discussion and analysis of Constellation Schools: Mansfield Community Elementary (MCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the financial performance of MCE 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 MCE.

Financial Highlights

Key financial highlights for 2012 include the following:

- In total, net assets decreased \$39,828, which represents a 9.4% decrease from 2011. This decrease is due to reductions in federal stimulus grants and services to other schools. It was partially offset by decreased operating expenses.
- Total assets increased \$214,216, which represents a 33.0% increase from 2011. This increase is from the purchase of a second building to lease to another school with a corresponding decrease in cash and a decrease in federal grants receivable.
- Liabilities increased by \$254,043, which represents a 113.2% increase from 2011. Slight decreases which occurred in vendor payables were offset by the debt financing to purchase a second school building and equipment lease.
- Operating revenues increased by \$1,071, which represents a 0.1% increase from 2011. This is a result of increased foundation funding from the state partially offset by decreased revenue for services to other schools.
- Expenses decreased by \$96,007 which represents a 6.1% decrease from 2011. Significant operating expense decreases occurred in purchased services, materials and supplies. Increases occurred in personnel, capital purchases, depreciation and other expenses. These overall decreases were due to reduced federal stimulus grants.
- Non-operating revenues decreased by \$177,822, which represents a 44.8% decrease from 2011. This decrease is due to reduced federal stimulus grants 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 Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Statement of Net Assets

The Statement of Net Assets looks at how well MCE has performed financially through June 30, 2012. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Assets for fiscal years ended June 30, 2012 and 2011 for MCE.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$193,908	\$319,937	(\$126,029)	-39.4%
Other Current Assets	16,150	43,573	(27,423)	-62.9%
Non-Current Assets	25,748	25,000	748	100.0%
Capital Assets	<u>627,304</u>	<u>260,384</u>	<u>366,920</u>	<u>140.9%</u>
Total Assets	<u>863,110</u>	<u>648,894</u>	<u>214,216</u>	<u>33.0%</u>
Liabilities				
Current Liabilities	231,653	15,520	216,133	1392.6%
Long-Term Liabilities	<u>246,819</u>	<u>208,909</u>	<u>37,910</u>	<u>100.0%</u>
Total Liabilities	<u>478,472</u>	<u>224,429</u>	<u>254,043</u>	<u>113.2%</u>
Net Assets				
Investment in capital assets, net of related debt	151,370	39,560	111,810	282.6%
Unrestricted	<u>233,268</u>	<u>384,906</u>	<u>(151,638)</u>	<u>-39.4%</u>
Total Net Assets	<u>\$384,638</u>	<u>\$424,466</u>	<u>(\$39,828)</u>	<u>-9.4%</u>

Net Assets decreased \$39,828, due to decreased federal stimulus funds and decreased services to other schools. These revenue reductions were only partially mitigated by reduction in operating expenses from the previous year. For assets, cash decreased \$126,029 (building purchase); due from other governments decreased \$37,915; prepaid expenses increased \$10,492; security deposits increased \$748 and net capital assets increased \$366,920 from 2011. For liabilities, accounts payable decreased \$1,577; interest payable increased \$231, deferred revenues increased \$280 leases payable increased \$28,192 and mortgages payable increased \$226,917 from 2011.

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2012.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for MCE for fiscal years ended June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$1,155,708	\$1,137,985	\$17,723	1.6%
Other Operating Revenues	69,299	85,951	(16,652)	-19.4%
Total Operating Revenues	<u>1,225,007</u>	<u>1,223,936</u>	<u>1,071</u>	<u>0.1%</u>
Interest Income	53	52	1	1.9%
Federal and State Grants	220,531	399,307	(178,776)	-44.8%
Private Grants and Contributions	0	118	(118)	-100.0%
Total Non-Operating Revenues	<u>220,584</u>	<u>399,477</u>	<u>(178,893)</u>	<u>-44.8%</u>
Total Revenues	<u>1,445,591</u>	<u>1,623,413</u>	<u>(177,822)</u>	<u>-11.0%</u>
Expenses				
Salaries	625,643	614,781	10,862	1.8%
Fringe Benefits	202,230	202,745	(515)	-0.3%
Purchased Services	505,389	614,447	(109,058)	-17.7%
Materials and Supplies	63,392	75,341	(11,949)	-15.9%
Capital Outlay	7,276	3,463	3,813	110.1%
Depreciation and Amortization	21,047	20,627	420	2.0%
Other Expenses	60,442	50,022	10,420	20.8%
Total Expenses	<u>1,485,419</u>	<u>1,581,426</u>	<u>(96,007)</u>	<u>-6.1%</u>
Net Income/(Loss)	<u>(39,828)</u>	<u>41,987</u>	<u>(81,815)</u>	<u>-194.9%</u>
Net Assets at Beginning of the Year	<u>424,466</u>	<u>382,479</u>	<u>41,987</u>	<u>11.0%</u>
Net Assets at End of Year	<u>\$384,638</u>	<u>\$424,466</u>	<u>(\$39,828)</u>	<u>-9.4%</u>

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Net Assets decreased in fiscal year ending June 30, 2012 and increased in fiscal year ending June 30, 2011. These changes are due primarily to revenue calculated on the enrollment changes that occurred during both of these years, changes in federal stimulus funds and changes in operations at the school. Although certain expenditures such as salaries will increase/decrease as the number of classes increase/decrease other costs remain fixed such as facilities costs. Additionally, grants have been received to supplement various educational programs and purchase educational equipment. Measures have been taken to stabilize and then to increase enrollment during subsequent years.

The most significant changes in revenues from 2011 to 2012 are decreases of \$178,776 in federal stimulus funding and minor state grants and an increase in Foundation funding of \$17,723. Decreases in services provided to other schools also totaled \$24,851.

In total expenses decreased \$96,007 from 2011 to 2012. Salaries and Fringe Benefits decreased \$10,347 due to staff changes from grant reductions with regular annual salary increases. Purchased services decreased \$109,058 due to reductions in students needing special education services, student support services, rent and other building services. Materials and Supplies decreased \$11,949 due to reduced purchases of text books. Capital Outlay increased \$3,813 for classroom technology. Depreciation increased slightly by \$420 as a direct result of the purchase of the building the school occupies during 2011. Other Operating Expenses increased \$10,420 due to the increased payments for mortgage interest and, equipment lease interest and insurance premium increases.

Capital Assets

As of June 30, 2012, MCE had \$627,304 invested in land, building, building improvements, computers, technology, furniture and equipment, net of depreciation. This is a \$366,920 increase from June 30, 2011.

The following schedule provides a summary of Capital Assets as of June 30, 2012 and 2011 for MCE.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$173,580	\$33,580	\$140,000	100.0%
Building	397,151	187,902	209,249	100.0%
Building Improvements	9,562	10,372	(810)	100.0%
Computers and Technology	36,224	16,667	19,557	117.3%
Furniture and Equipment	10,787	11,863	(1,076)	-9.1%
Net Capital Assets	<u>\$627,304</u>	<u>\$260,384</u>	<u>\$366,920</u>	<u>140.9%</u>

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

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Debt Service

On December 30, 2010 the School purchased the building in which it operates from Constellation Schools (the previous management company). Financing of the purchase was accomplished through a mortgage held by PNC Bank, National Association with a face value of \$223,860. The note is for a term of twenty and one-half months and is being amortized on a 30 year schedule with an interest rate of 7.873 percent per annum and a balloon payment due November 17, 2012. The outstanding principal balances as of June 30, 2012 is \$208,909.

On December 22, 2011 MCE purchased a second building to lease to Constellation Schools: Mansfield Community Middle. Financing of the purchase was accomplished through cash and a mortgage held by US Bank in the amount of \$245,000. The note is for a term of twenty three months, is being amortized on a 15 year schedule and has an interest rate of 3.25 percent per annum. A balloon payment is due January 1, 2014. The outstanding principal balances as of June 30, 2012 is \$238,833.

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

Equipment Lease

During fiscal year 2012 MCE entered into a lease agreement with Winthrop Resources Corporation for \$31,013 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, 2012 on the lease payable is \$28,192.

Current Financial Issues

Constellation Schools: Mansfield Community Elementary opened in the fall of 2002. It has grown from 81 students, eight teaching staff members and expenses of \$636,994 to a total of 155 students, 16 teaching staff members and expenses of \$1,485,419. Beginning with the 2010 school year the middle school grades were moved to a new school.

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for MCE 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: Mansfield Community Elementary
Richland County
Statement of Net Assets
As of June 30, 2012**

Assets:

Current Assets:

Cash	\$193,908
Due from Other Governments	5,659
Prepaid Expenses	10,491
<i>Total Current Assets</i>	210,058

Non-Current Assets:

Security Deposits	25,748
Non-Depreciable Capital Assets	173,580
Capital Assets (Net of Accumulated Depreciation)	453,724
<i>Total Non-Current Assets</i>	653,052
<i>Total Assets</i>	863,110

Liabilities:

Current Liabilities:

Accounts Payable	1,399
Interest Payable	859
Deferred Revenue	280
Capital Lease Equipment Payable	7,135
Mortgage Notes Payable	221,980
<i>Total Current Liabilities</i>	231,653

Long Term Liabilities:

Capital Lease Equipment Payable	21,057
Mortgage Notes Payable	225,762
<i>Total Long Term Liabilities</i>	246,819
<i>Total Liabilities</i>	478,472

Net Assets:

Investment in capital assets, net of related debt	151,370
Unrestricted	233,268
<i>Total Net Assets</i>	\$384,638

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

**Constellation Schools: Mansfield Community Elementary
Richland County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$1,155,708
Other Operating Revenues	<u>69,299</u>

<i>Total Operating Revenues</i>	<u>1,225,007</u>
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Operating Expenses:

Salaries	625,643
Fringe Benefits	202,230
Purchased Services	505,389
Materials and Supplies	63,392
Capital Outlay	7,276
Depreciation	21,047
Other Operating Expenses	<u>37,841</u>

<i>Total Operating Expenses</i>	<u>1,462,818</u>
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Operating Loss	<u>(237,811)</u>
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Non-Operating Revenues & Expenses:

Interest Income	53
Interest Expense	(22,601)
Federal and State Grants	<u>220,531</u>

<i>Total Non-Operating Revenues & Expenses</i>	<u>197,983</u>
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Net Income	<u>(39,828)</u>
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Net Assets at Beginning of the Year	<u>424,466</u>
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Net Assets at End of Year	<u><u>\$384,638</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Mansfield Community Elementary
Richland County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,155,708
Cash Payments to Suppliers for Goods and Services	(825,634)
Cash Payments to Employees for Services	(625,643)
Other Operating Revenues	69,579
Net Cash Used for Operating Activities	<u>(225,990)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	<u>256,115</u>
Net Cash Provided by Noncapital Financing Activities	<u>256,115</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(387,967)
Mortgage Loan Proceeds	245,000
Mortgage Loan Principal Payments	(18,082)
Mortgage Loan Interest Payments	(22,428)
Proceeds for Equipment Lease	31,013
Equipment Lease Principal Payments	(2,822)
Equipment Lease Interest Payments	(173)
Increase in Security Deposits	(748)
Net Cash Used for Capital and Related Financing Activities	<u>(156,207)</u>

Cash Flows from Investing Activities:

Interest	<u>53</u>
Net Cash Provided by Investing Activities	<u>53</u>

Net Decrease in Cash	(126,029)
Cash at Beginning of Year	<u>319,937</u>
Cash at End of Year	<u><u>\$193,908</u></u>

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

**Constellation Schools: Mansfield Community Elementary
 Richland County
 Statement of Cash Flows
 For the Fiscal Year Ended June 30, 2012
 (Continued)**

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

Operating Loss	(\$237,811)
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**Adjustments to Reconcile Operating Loss to
 Net Cash Used for Operating Activities:**

Depreciation	21,047
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments	2,330
(Increase) in Prepaid Expenses	(10,492)
(Decrease) in Accounts Payable	(1,344)
Increase in Deferred Revenue	280

Total Adjustments	11,821
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Net Cash Used for Operating Activities	(\$225,990)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
- A Community School -
Richland County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

I. Description of the School and Reporting Entity

Constellation Schools: Mansfield Community Elementary (MCE) is a nonprofit corporation established originally as Mansfield Community School on October 17, 2001 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 May 5, 2003, MCE received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred which may adversely affect the tax-exempt status of MCE. MCE, which is part of Ohio's education program, is independent of any school district. MCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MCE.

MCE was approved for operation under a contract between the Governing Authority of Constellation Schools: Mansfield Community Elementary and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 MCE entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC was subsequently extended through June 30, 2016. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services. MCE entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XIII for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Mansfield Community Elementary.

MCE operates under a six 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 MCE's instructional facility staffed by sixteen certificated full time teaching personnel who provide services to 155 students. During 2012, the board members for MCE also serve as the board for Constellation Schools: Outreach Academy for Students with Disabilities.

II. Summary of Significant Accounting Policies

The financial statements of MCE have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. MCE also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
- A Community School -
Richland County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

conflict with or contradict GASB pronouncements. MCE has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of MCE's accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

3. Cash

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

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
- A Community School -
Richland County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

4. Budgetary Process

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

5. Due From Other Governments

Monies due MCE for the year ended June 30, 2012 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

6. Capital Assets and Depreciation

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

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

Capital Asset Classification	Years
Building	40
Building Improvements	10 to 20
Computers and Office Equipment	3
Furniture, Equipment and materials	10

7. Intergovernmental Revenues

MCE currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. MCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, the American Recovery and Reinvestment Act, Education Jobs, 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

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY
- A Community School -
Richland County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2012 school year totaled \$1,376,239.

8. Private Grants and Contributions

MCE received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. MCE did not receive any private grants and contributions for the 2012 school year.

9. Compensated Absences

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

10. Use of Estimates

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

11. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2012, the carrying amount of MCE's deposits totaled \$193,908 and its bank balance was \$216,995. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2012, none of the bank balance was exposed to custodial risk as discussed below, while \$216,995 was covered by the Federal Depository Insurance Corporation.

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

IV. Purchased Services

Purchased Services include the following:

Instruction	\$16,429
Pupil Support Services	100,940
Staff Development & Support	29,252
Administrative	218,815
Occupancy Costs	80,431
Food Services	<u>59,522</u>
 Total Purchased Services	 <u><u>\$505,389</u></u>

V. Capital Equipment Lease Payable

During fiscal year 2012, MCE 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 \$31,013 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 2012 totaled \$2,821 and interest paid totaled \$173. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2013	\$7,135	\$1,842	\$8,977
2014	7,681	1,296	8,977
2015	8,266	711	8,977
2016	<u>5,110</u>	<u>127</u>	<u>5,237</u>
 Total	 <u><u>\$28,192</u></u>	 <u><u>\$3,976</u></u>	 <u><u>\$32,168</u></u>

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VI. Capital Assets

A summary of capital assets at June 30, 2012 follows:

	<u>Balance</u> <u>6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/12</u>
Capital Assets Not Being Depreciated:				
Land	\$33,580	\$140,000	\$0	\$173,580
Capital Assets Being Depreciated:				
Building	190,280	214,006	0	404,286
Building Improvements	10,847	0	0	10,847
Computers and Technology	71,674	32,362	(11,057)	92,979
Furniture and Equipment	25,839	1,599	(4,611)	22,827
Total Capital Assets Being Depreciated	<u>298,640</u>	<u>247,967</u>	<u>(15,668)</u>	<u>530,939</u>
Less Accumulated Depreciated:				
Building	(2,378)	(4,757)	0	(7,135)
Building Improvements	(475)	(810)	0	(1,285)
Computers and Technology	(55,007)	(12,805)	11,057	(56,755)
Furniture and Equipment	(13,976)	(2,675)	4,611	(12,040)
Total Accumulated Depreciation	<u>(71,836)</u>	<u>(21,047)</u>	<u>15,668</u>	<u>(77,215)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>226,804</u>	<u>226,920</u>	<u>0</u>	<u>453,724</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$260,384</u>	<u>\$366,920</u>	<u>\$0</u>	<u>\$627,304</u>

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VII. School Purchases

On December 30, 2010, MCE purchased the former Stadium School located at 215 North Trimble, Mansfield, from CS for a total purchase price of \$223,860. This cost has been capitalized and is being depreciated over a forty year period. All operations of the school are located at this site.

On December 22, 2011, MCE purchased the former Ranchwood School located at 1033 Larchwood Road, Mansfield for a total purchase price of \$350,000 with the intent of leasing the building to Constellation Schools: Mansfield Community Middle. This cost has been capitalized and will be depreciated over a forty year period once renovations are made and the school is occupied.

VIII. Mortgage Notes Payable

On January 31, 2011, MCE entered into a mortgage agreement relating to the purchase of the property at 215 North Trimble, Mansfield (see note VII). A mortgage note in the amount of \$223,859 is held by PNC Bank, National Association. The note, for a term of twenty and one-half months, is being amortized on a 30 year schedule with an interest rate of 7.873 percent per annum and a balloon payment due November 17, 2012 (see note XIV). During fiscal year 2012 principal was reduced by \$11,915 and interest expense totaled \$16,617. As of June 30, 2012 the outstanding principal balance is \$208,909. Interest payable totaling \$685 has been recorded as a current liability as of June 30, 2012.

On December 22, 2011, MCE entered into a mortgage agreement relating to the purchase of the property at 1033 Larchwood Road, Mansfield (see note VII). A mortgage note in the amount of \$245,000 is held by US Bank. The note is for a term of twenty three months is being amortized on a 15 year schedule with an interest rate of 3.25 percent per annum and a balloon payment due January 1, 2014. During fiscal year 2012 principal was reduced by \$6,167 and interest expense totaled \$4,891. As of June 30, 2012 the outstanding principal balance is \$238,833. There is no interest payable as of June 30, 2012.

Principal and interest payments due on both mortgage notes are as follows:

Year	PNC Bank, National Association			US Bank		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$208,909	\$6,920	\$215,829	\$13,071	\$7,675	\$20,746
2014	0	0	0	225,762	3,704	229,466
Total	<u>\$208,909</u>	<u>\$6,920</u>	<u>\$215,829</u>	<u>\$238,833</u>	<u>\$11,379</u>	<u>\$250,212</u>

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IX. Risk Management

1. Property and Liability Insurance

MCE 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 2012, MCE 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

MCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been seven claims filed by MCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2012. The total payments made for active claims have been \$16,229. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MCE as June 30, 2012.

3. Employee Medical, Dental, Vision and Life Benefits

MCE 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 MCE for the fiscal year is \$95,569.

X. Defined Benefit Pension Plans

1. State Teachers Retirement System

MCE 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.

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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

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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, 2011 (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%.

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MCE's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011 and 2010 were \$73,312, \$72,256 and \$79,637, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and MCE 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, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. MCE's contributions to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$8,639, \$8,255 and \$7,663, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

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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, 2012, 2011 and 2010 MCE's contributions to post-employment health care were \$5,639, \$5,558 and \$6,126, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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 2011 was \$96.40 for most participants, but could be as high as \$369.10 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 2011 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2012, 2011 and 2010 MCE contributions to Medicare Part B were \$469, \$448 and \$416, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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

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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, 2011 the health care allocation is 1.43%. 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 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2012, 2011 and 2010 MCE contributions to the Health Care Plan, including the surcharge were \$1,815, \$1,734 and \$1,080, respectively; 48.6% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010. \$933 representing the unpaid surcharge due for fiscal year 2012 is recorded as a liability within the respective funds.

XII. Contingencies

1. Grants

MCE 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 MCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCE at June 30, 2012.

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 2012 are immaterial and are not reflected in the financial statements but will be included in the financial activity for fiscal year 2013.

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3. Student Attendance Data Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of education at a later date.

MCE received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally 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 the General Fund or other applicable fund. This also encompasses the Auditor of State's ongoing review of student attendance data. The effect of any such disallowed claims on the overall financial position of the school as of June 30, 2012, if applicable, cannot be determined at this time.

XIII. Sponsorship and Management Agreements

MCE entered into an agreement with Lucas County Educational Service Center (now known as the ESC of Lake Erie West) to provide sponsorship and oversight services as required by law. The agreement continues until June 30, 2019. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2012 Foundation payments received by MCE, from the State of Ohio. The total amount due from MCE for fiscal year 2012 was \$17,336 all of which was paid prior to June 30, 2012.

MCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2012. The agreement was for a period of one year, effective July 1, 2011. Management fees are calculated as 6.25% of the Fiscal Year 2012 Foundation and State Fiscal Stabilization Funds payment received by MCE from the State of Ohio plus a fixed fee of \$101,075. The total amount due from MCE for the fiscal year ending June 30, 2012 was \$173,360 all of which was paid prior to June 30, 2012.

XIV. Subsequent Event

On November 16, 2012, PNC Bank extended the mortgage note for the Stadium School property until February 17, 2013, with the same terms and conditions already in existence. PNC Bank and school management continue to negotiate for another extension in anticipation of eventually securing long-term financing for the building.

November 27, 2012

To the Board of Trustees
Constellation Schools: Mansfield Community Elementary
215 North Trimble
Mansfield, OH 44906

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

We have audited the financial statements of Constellation Schools: Mansfield Community Elementary, Richland County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Constellation Schools: Mansfield Community Elementary
Independent Auditors 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*
Page 2

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*.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the School's sponsor, and is not intended to be and should not be used by anyone other than those specified parties

Rea & Associates, Inc.



Dave Yost • Auditor of State

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY ELEMENTARY

RICHLAND 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 12, 2013**