

**CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2013



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Old Brooklyn Community Elementary
4430 State Road
Cleveland, OH 44109

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Constellation Schools: Old Brooklyn 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

December 9, 2013

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**CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
CUYAHOGA COUNTY**

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INDEPENDENT AUDITOR'S REPORT

November 19, 2013

To the Board of Trustees
Constellation Schools: Old Brooklyn Community Elementary
4430 State Road
Cleveland, OH 44109

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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

Rea & Associates, Inc.

Medina, Ohio

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

The discussion and analysis of Constellation Schools: Old Brooklyn Community Elementary (OBCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the financial performance of OBCE 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 OBCE.

Financial Highlights

Key financial highlights for 2013 include the following:

- In total, net position increased \$76,666, which represents a 12.9% increase from 2012. Increased revenues from the state foundation program and casino tax collections as well as expenditure reductions in most categories combined to create this increase.
- Total assets decreased \$34,425, which represents a 0.4% decrease from 2012. This is due mainly to cash generated from the operations of the school offset by depreciation and amortization charges.
- Liabilities decreased \$111,091, which represents a 1.4% decrease from 2012. Increases in vendor payables and deferred revenue were offset by decreases in leases payable and bonds payable during the year.
- Operating revenues increased by \$45,589 which represents a 1.8% increase from 2012. This increase is a result of increased enrollment due to increased class sizes as well as Casino taxes distributed to the school.
- Expenses decreased by \$125,868 which represents a 4.2% decrease from 2012. Operating expense decreases are due to reduced personnel expenses, special education expenses, supply expenses, text books purchases, equipment purchases and interest expense. These decreases were slightly offset by increases in intervention services, data fees, technology purchases and insurance costs.
- Non-operating revenues decreased by \$46,797, which represents a 12.9% decrease from 2012. This is due entirely to decreased federal entitlement program funding.

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: OLD BROOKLYN COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Statement of Net Position

The Statement of Net Position looks at how well OBCE has performed financially through June 30, 2013. This statement includes all of the assets, liabilities and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended. The following schedule provides a summary Statement of Net Position for fiscal years ended June 30, 2013 and 2012 for OBCE.

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$657,153	\$515,801	\$141,352	27.4%
Other Current Assets	367,963	383,151	(15,188)	-4.0%
Non-Current Assets	2,018,369	1,989,384	28,985	1.5%
Capital Assets	<u>5,606,739</u>	<u>5,796,313</u>	<u>(189,574)</u>	<u>-3.3%</u>
Total Assets	<u>8,650,224</u>	<u>8,684,649</u>	<u>(34,425)</u>	<u>-0.4%</u>
Liabilities				
Current Liabilities	453,222	429,190	24,032	5.6%
Long-Term Liabilities	<u>7,527,164</u>	<u>7,662,287</u>	<u>(135,123)</u>	<u>-1.8%</u>
Total Liabilities	<u>7,980,386</u>	<u>8,091,477</u>	<u>(111,091)</u>	<u>-1.4%</u>
Net Position				
Net Investment in Capital Assets	115,302	221,275	(105,973)	-47.9%
Net Restricted for Debt Purposes	146,747	74,850	71,897	96.1%
Unrestricted	<u>407,789</u>	<u>297,047</u>	<u>110,742</u>	<u>37.3%</u>
Total Net Position	<u>\$669,838</u>	<u>\$593,172</u>	<u>\$76,666</u>	<u>12.9%</u>

Net Position increased \$76,666, due primarily to increased revenues from state foundation program and casino tax revenues as well as reductions in most expenditure categories. For assets, cash increased \$141,352; bond escrow accounts (used for debt service) decreased \$215; due from other governments decreased \$3,180; prepaid expenses decreased \$11,794, bond reserve accounts increased \$50,536; deferred charges decreased \$21,551 and net capital assets decreased \$189,574 from 2012. For liabilities, accounts payable increased \$16,558, interest payable decreased \$3,341; deferred revenues increased \$2,420; leases payable decreased \$27,150 and bonds payable decreased \$99,578 from 2012.

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports operating and non-operating activities for the fiscal year ended June 30, 2013. The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for OBCE for fiscal years ended June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$2,258,378	\$2,217,721	\$40,657	1.8%
Other Operating Revenues	382,807	377,875	4,932	1.3%
Total Operating Revenues	<u>2,641,185</u>	<u>2,595,596</u>	<u>45,589</u>	<u>1.8%</u>
Federal and State Grants	315,637	362,434	(46,797)	-12.9%
Total Non-Operating Revenues	<u>315,637</u>	<u>362,434</u>	<u>(46,797)</u>	<u>-12.9%</u>
Total Revenues	<u>2,956,822</u>	<u>2,958,030</u>	<u>(1,208)</u>	<u>0.0%</u>
Expenses				
Salaries	999,503	1,028,785	(29,282)	-2.8%
Fringe Benefits	267,121	284,872	(17,751)	-6.2%
Purchased Services	714,459	720,692	(6,233)	-0.9%
Materials and Supplies	73,392	132,785	(59,393)	-44.7%
Capital Outlay	16,477	26,504	(10,027)	-37.8%
Depreciation and Amortization	223,486	218,712	4,774	2.2%
Other Expenses	585,718	593,674	(7,956)	-1.3%
Total Expenses	<u>2,880,156</u>	<u>3,006,024</u>	<u>(125,868)</u>	<u>-4.2%</u>
Changes in Net Position	<u>76,666</u>	<u>(47,994)</u>	<u>124,660</u>	<u>-259.7%</u>
Net Position: Beginning of the Year	<u>593,172</u>	<u>641,166</u>	<u>(47,994)</u>	<u>-7.5%</u>
Net Position: End of the Year	<u>\$669,838</u>	<u>\$593,172</u>	<u>\$76,666</u>	<u>12.9%</u>

Net Position increased \$76,666 in fiscal year 2013 and decreased \$47,994 in fiscal year 2012. Increased enrollment and federal stimulus funding in 2012 required hiring more staff, and higher special education; student services; food services; and management services expenditures. In 2013 federal stimulus funds were eliminated requiring reductions in staff as well as other support expenses. Certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease while other costs, such as facilities, once obligated remain fixed and will result in more efficient financial operations over time.

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

The most significant changes in revenues from 2012 to 2013 are increases of \$33,724 in State Foundation funding, \$6,923 in casino tax revenues and \$8,358 for material fees. Decreases of \$46,258 in federal funding to the school through the state of Ohio, as well as minor reductions in other collections, such as food service receipts, account for the majority of the rest of the major revenue changes between the two years.

Most categories of expense decreased from 2012 to 2013. This is a direct result of reductions in spending due to the end of the federal stimulus funding programs plus other cost savings efforts made by the school during the year. Salaries and Fringe Benefits decreased \$47,033; Purchased Services decreased \$6,233; Materials and Supplies decreased \$59,393; Capital Outlay decreased \$10,027, depreciation and amortization increased \$4,774; and Other Expenses decreased \$7,956 (mostly interest and audit fees).

Capital Assets

As of June 30, 2013, OBCE had \$5,606,739 invested in land, building, building improvements, technology, software, furniture and equipment, net of depreciation. This is a \$189,574 decrease from June 30, 2012. The following schedule provides a summary of Capital Assets as of June 30, 2013 and 2012 for OBCE.

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$80,800	\$80,800	\$0	0.0%
Building	684,643	707,917	(23,274)	-3.3%
Building Improvements	4,721,689	4,860,459	(138,770)	-2.9%
Technology and Software	92,583	110,731	(18,148)	-16.4%
Furniture and Equipment	27,024	36,406	(9,382)	-25.8%
Net Capital Assets	<u>\$5,606,739</u>	<u>\$5,796,313</u>	<u>(\$189,574)</u>	<u>-3.3%</u>

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

Bond Debt Service

On January 23, 2008, OBCE refinanced the land and building in which it operates. Additional funds were borrowed to facilitate construction of an addition to meet enrollment demand for the school. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the property occupied by OBCE. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2013 is \$7,582,166. During August 2008 the mortgage was transferred from Wells Fargo Bank, National Association to US Bank, National Association. For more information on debt service see the Notes to the Financial Statements.

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2013

Equipment Lease

During fiscal year 2012 OBCE entered into a lease agreement with Winthrop Resources Corporation for \$118,008 worth of technology equipment. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term is for a total of 48 months, carries an interest rate of 7.38% per annum and will expire in January 2016 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2013 on the lease payable is \$80,121.

Current Financial Issues

OBCE opened in the fall of 1998 as one of the first community schools in the State of Ohio. The school has grown from 30 students, two teaching staff members and expenses of \$181,928 to a total of 325 students, 23 teaching staff members and expenses of \$2,880,156. On March 1, 2006, grades 5 through 8 were split off to form Old Brooklyn Community Middle School. This is providing more flexibility in the curriculum for each student. During this time we purchased our own educational facility and have constructed a substantial addition to accommodate increasing enrollment and allow both schools to cohabit the same property.

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for OBCE 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, CPA Treasurer/CFO, 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: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Net Position
As of June 30, 2013

Assets:

Current Assets:

Cash	\$657,153
Escrow Accounts	327,075
Due from Other Governments	40,888
<i>Total Current Assets</i>	<u>1,025,116</u>

Non-Current Assets:

Security Deposit	27,847
Bond Reserve Accounts	1,462,525
Deferred Charges	527,997
Non-Depreciable Capital Assets	80,800
Capital Assets (Net of Accumulated Depreciation)	5,525,939
<i>Total Non-Current Assets</i>	<u>7,625,108</u>

<i>Total Assets</i>	<u>8,650,224</u>
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Liabilities:

Current Liabilities:

Accounts Payable	39,242
Interest Payable	263,552
Deferred Revenue	15,305
Capital Lease Equipment Payable	29,222
Capital Lease Bond Notes Payable	105,901
<i>Total Current Liabilities</i>	<u>453,222</u>

Long Term Liabilities:

Capital Lease Equipment Payable	50,899
Capital Lease Bond Notes Payable	7,476,265
<i>Total Long Term Liabilities</i>	<u>7,527,164</u>

<i>Total Liabilities</i>	<u>7,980,386</u>
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Net Position:

Net Investment in Capital Assets	115,302
Net Restricted for Debt Purposes	146,747
Unrestricted	407,789
<i>Total Net Position</i>	<u>\$669,838</u>

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

**Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$2,258,378
Other Operating Revenues	382,807
<i>Total Operating Revenues</i>	2,641,185

Operating Expenses:

Salaries	999,503
Fringe Benefits	267,121
Purchased Services	714,459
Materials and Supplies	73,392
Capital Outlay	16,477
Depreciation and Amortization	223,486
Other Operating Expenses	49,583
<i>Total Operating Expenses</i>	2,344,021

Operating Income	297,164
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Non-Operating Revenues & Expenses:

Interest Expense	(536,135)
Federal and State Grants	315,637
<i>Total Non-Operating Revenues & Expenses</i>	(220,498)

Change in Net Position	76,666
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Net Position at Beginning of the Year	593,172
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Net Position at End of Year	\$669,838
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$2,258,378
Cash Payments to Suppliers for Goods and Services	(1,097,774)
Cash Payments to Employees for Services	(999,503)
Other Operating Revenues	385,227
Net Cash Provided by Operating Activities	<u>546,328</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>323,911</u>
Net Cash Provided by Noncapital Financing Activities	<u>323,911</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(12,362)
Decrease in Escrow Funds	215
Increase in Bond Reserve Accounts	(50,536)
Bond Principal Payments	(99,578)
Bond Interest Payments	(532,467)
Equipment Lease Principal Payments	(27,150)
Equipment Lease Interest Payments	(7,009)
Net Cash Used for Capital and Related Financing Activities	<u>(728,887)</u>

Net Increase in Cash	141,352
Cash at Beginning of Year	<u>515,801</u>
Cash at End of Year	<u><u>\$657,153</u></u>

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

**Constellation Schools: Old Brooklyn Community Elementary
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013
(Continued)**

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:**

Operating Income	\$297,164
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**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:**

Depreciation and Amortization	223,486
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Changes in Assets and Liabilities:

(Increase) in Due from Other Governments	(5,095)
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Decrease in Prepaid Expenses	11,794
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Increase in Accounts Payable	16,559
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Increase in Deferred Revenue	2,420
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Total Adjustments	249,164
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Net Cash Provided by Operating Activities	\$546,328
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

I. Description of the School and Reporting Entity

Constellation Schools: Old Brooklyn Community Elementary (OBCE), is a nonprofit corporation established on February 3, 1997 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 December 19, 1997, OBCE (under the name Archwood Montessori School) received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of OBCE. OBCE, which is part of Ohio's education program, is independent of any school district. OBCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of OBCE.

OBCE was approved for operation as Old Brooklyn Montessori School under a contract between the Governing Authority (Board) of OBCE and the Ohio Department of Education as the sponsor for a period of five years commencing in the fall of 1998. The contract was subsequently renewed in 2003 for a two-year period. On October 16, 2003 Lucas County Educational Service Center (LCESC) replaced the Ohio Department of Education. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2022. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XIV for further discussion of the sponsor services.

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

OBCE operates under a five member Board which is responsible for carrying out the provisions of the contract, including, but not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the instructional facility for OBCE, which is staffed by twenty-three certificated full time personnel and six support staff who provide services to 325 students in grades kindergarten through four. The Board for OBCE also serves as the Board for Constellation Schools: Old Brooklyn Community Middle, Constellation Schools: Stockyard Community Elementary, Constellation Schools: Stockyard Community Middle and Constellation Schools: Madison Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of OBCE 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

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

establishing governmental accounting and financial reporting principles. The more significant of OBCE's accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

3. Change in Accounting Principles

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

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of OBCE's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

Monies due OBCE for the year ended June 30, 2013 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

7. Capital Assets and Depreciation

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

All capital assets are depreciated except for land. Depreciation of buildings, building improvements, 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
Building	40
Building Improvements	10 to 40
Technology & Software	3 to 5
Furniture and Equipment	10

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8. Intergovernmental Revenues

OBCE 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. OBCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program, Race to the Top and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2013 school year totaled \$2,574,015.

9. Private Grants and Contributions

OBCE 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. OBCE did not receive any private grants or contributions for the 2013 school year.

10. Compensated Absences

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

11. Use of Estimates

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

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12. Deferred Revenue

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

13. Deferred Charges

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

III. Deposits

At fiscal year end June 30, 2013, the carrying amount of OBCE's deposits totaled \$657,153 and its bank balance was \$674,699. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2013, \$424,699 of OBCE's bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of OBCE and the Industrial Development Authority of the County of Pima, Arizona totaled \$1,789,600 at fiscal year end June 30, 2013. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

Custodial credit risk is the risk that in the event of bank failure, OBCE will not be able to recover the deposits. All bank 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 OBCE.

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IV. Capital Assets

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

	<u>Balance</u> <u>6/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/13</u>
Capital Assets Not Being Depreciated:				
Land	<u>\$80,800</u>	<u>\$0</u>	<u>\$0</u>	<u>\$80,800</u>
Capital Assets Being Depreciated:				
Building	930,959	0	0	930,959
Building Improvements	5,399,442	0	0	5,399,442
Technology and Software	205,973	21,529	(37,967)	189,535
Furniture and Equipment	<u>99,852</u>	<u>0</u>	<u>(13,297)</u>	<u>86,555</u>
Total Capital Assets Being Depreciated	<u>6,636,226</u>	<u>21,529</u>	<u>(51,264)</u>	<u>6,606,491</u>
Less Accumulated Depreciated:				
Building	(223,042)	(23,274)	0	(246,316)
Building Improvements	(538,983)	(138,770)	0	(677,753)
Technology and Software	(95,242)	(34,216)	32,506	(96,952)
Furniture and Equipment	<u>(63,446)</u>	<u>(5,675)</u>	<u>9,590</u>	<u>(59,531)</u>
Total Accumulated Depreciation:	<u>(920,713)</u>	<u>(201,935)</u>	<u>42,096</u>	<u>(1,080,552)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>5,715,513</u>	<u>(180,406)</u>	<u>(9,168)</u>	<u>5,525,939</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$5,796,313</u></u>	<u><u>(\$180,406)</u></u>	<u><u>(\$9,168)</u></u>	<u><u>\$5,606,739</u></u>

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V. Purchased Services

Purchased Services include the following:

Instruction	\$105,398
Pupil Support Services	66,384
Staff Development & Support	12,791
Administrative	383,574
Occupancy Costs	93,235
Transportation	450
Food Services	49,993
Extracurricular Activities	<u>2,634</u>
 Total Purchased Services	 <u><u>\$714,459</u></u>

VI. Capital Equipment Lease Payable

During fiscal year 2012, OBCE 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 \$118,008 have been capitalized. This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2013 totaled \$27,150 and interest paid totaled \$6,842. 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>
2014	\$29,222	\$4,938	\$34,160
2015	31,454	2,706	34,160
2016	<u>19,445</u>	<u>480</u>	<u>19,925</u>
Total	<u><u>\$80,121</u></u>	<u><u>\$8,124</u></u>	<u><u>\$88,245</u></u>

VII. Dawning School Building Purchase

On July 1, 2002, OBCE moved its operations to the former Dawning School located at 4430 State Road, Cleveland, which it purchased on November 12, 2002. The purchase price of \$950,000 and other purchase costs totaling \$61,759 have been capitalized and are being depreciated over a forty year period. All operations of OBCE are located at this site.

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In order to finance a multi-million dollar expansion project, OBCE sold the building and land which it occupies to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. OBCE leases the property from IDA under a capitalized lease arrangement (see Note VIII). The original purchase price, other purchase costs and building improvements continue to be recognized as capital assets and are being depreciated over their remaining useful life. Loan fees, previously capitalized under the original mortgage, have been expensed net of accumulated depreciation.

VIII. Capital Lease Bond Notes Payable

On January 23, 2008 OBCE closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the property owned by OBCE for the remaining mortgage balance carried by OBCE at the time. In addition IDA is financing a multi-million dollar building expansion to meet increasing demand for enrollment. The property is leased back to OBCE through annual lease renewals through January 2038. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association which was transferred to US Bank, National Association in August 2008. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2013 is \$7,582,166 and interest payable due July 1, 2013 is \$263,552. Interest expense during 2013 totaled \$529,293. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	<u>6/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/13</u>	<u>Due In One Year</u>
Lease Revenue					
Bonds	<u>\$7,681,744</u>	<u>\$0</u>	<u>\$99,578</u>	<u>\$7,582,166</u>	<u>\$105,901</u>

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during fiscal year 2009 and Construction in Progress totaling \$4,828,527 was transferred to the building improvements capital account. Bond Issuance costs, finance fees and underwriters discount totaling \$646,527 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2013 was \$118,530. The Bond Indenture requires OBCE to meet certain covenants. As of June 30, 2013 OBCE is in compliance with those covenants.

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As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee and subsequently transferred to US Bank, N.A. Payments for construction and financing activities have been paid from these accounts through June 30, 2013. Lease payments were made by OBCE to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term. Lease payments made during 2013 to fund interest, reserves and bond expenses totaled \$705,055. The balances of escrow and reserve accounts as of June 30, 2013 are as follows:

Bond Fund	\$316,011
Expense Fund	11,064
Total Bond Escrow Accounts	<u>\$327,075</u>
Reserve Fund	\$777,502
Supplemental Reserve	253,852
Operating Reserve	431,171
Total Bond Reserve Accounts	<u>\$1,462,525</u>

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

Land	\$80,800
Building	930,959
Building Improvements	5,399,442
Bond Finance Fees	646,527
Sub-Total	7,057,728
Accumulated Depreciation/Amortization	<u>(1,042,600)</u>
Net Book Value	<u>\$6,015,128</u>

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

Year	Principal	Interest	Total
2014	\$105,901	\$526,118	\$632,019
2015	112,223	519,367	631,590
2016	118,545	512,213	630,758
2017	126,448	504,656	631,104
2018	134,351	496,595	630,946
2019 - 2023	821,914	2,336,201	3,158,115
2024 - 2028	1,150,682	2,006,721	3,157,403
2029 - 2033	1,615,379	1,543,351	3,158,730
2034 - 2038	3,396,723	893,548	4,290,271
Total	\$7,582,166	\$9,338,770	\$16,920,936

IX. Sub Lease

OBCE sub-leases space to Constellation Schools: Old Brooklyn Community Middle (OBCM). Under the terms of the sub-lease OBCM made monthly lease payments of \$22,000. OBCE charged OBCM a total of \$264,000 during the year. As of June 30, 2013 all lease payments were collected from OBCM.

X. Risk Management

1. Property and Liability Insurance

OBCE is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2013, OBCE contracted with Indiana Insurance Company for all of its' insurance.

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

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2. Workers' Compensation

OBCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been three claims filed by OBCE employees with the Ohio Worker's Compensation System between January 1, 2008 and June 30, 2013. The total payments made for these claims have been \$2,718. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of OBCE as June 30, 2013.

3. Employee Medical, Dental, Vision and Life Benefits

OBCE 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 OBCE for the fiscal year is \$104,130.

XI. Defined Benefit Pension Plans

1. State Teachers Retirement System

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

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

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit

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

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

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

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

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receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

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

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

OBCE's required contributions for pension obligations for the fiscal years ended June 30, 2013, 2012 and 2011 were \$116,850, \$119,923 and \$112,736 respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

OBCE contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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Plan members are required to contribute 10% of their annual covered salary and OBCE is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2012 (the latest year available), the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. OBCE's contributions to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$14,092, \$14,882 and \$14,420, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

XII. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2013, 2012 and 2011 OBCE's contributions to post-employment health care were \$8,988, \$9,225 and \$8,672, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a

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monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2012 the actuarially required allocation is .74%. For the fiscal years ended June 30, 2013, 2012 and 2011 OBCE contributions to Medicare Part B were \$745, \$808 and \$783, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012 the health care allocation is 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2013, 2012 and 2011 OBCE contributions to the Health Care Plan, including the surcharge were \$2,377 \$8,958 and \$9,815 , respectively; 6.78% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011. \$2,216 representing the unpaid surcharge due for fiscal year 2013 is recorded as a liability within the respective funds.

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XIII. Contingencies

1. Grants

OBCE 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 OBCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of OBCE at June 30, 2013.

2. Enrollment FTE

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

XIV. Sponsorship and Management Agreements

OBCE entered into an agreement with the ESC of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2022. Sponsorship fees are calculated as 1.5% of the Foundation payments received by OBCE, from the State of Ohio. The total amount due ESCLEW from OBCE for fiscal year 2013 was \$33,772, all of which was paid prior to June 30, 2013.

OBCE entered into an agreement with Constellation Schools (CS) to provide legal, financial, business and educational management services for fiscal year 2013. The agreement was for a period of one year, effective July 1, 2012. Management fees are calculated as 6.25% of the Fiscal Year 2013 Foundation payment received by OBCE from the State of Ohio plus a fixed fee of \$173,250. The total amount due CS from OBCE for the fiscal year ending June 30, 2013 was \$313,965 all of which was paid prior to June 30, 2013.

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XV. Restricted for Debt Purposes, Net of Related Debt

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

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November 19, 2013

To the Board of Trustees
Constellation Schools: Old Brooklyn Community Elementary
4430 State Road
Cleveland, OH 44109

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

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Medina, Ohio

November 19, 2013

Board of Trustees
Constellation Schools: Old Brooklyn Community Elementary
4430 State Road
Cleveland, OH 44109

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

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

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

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

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

Rea & Associates, Inc.

Medina, Ohio

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Dave Yost • Auditor of State

CONSTELLATION SCHOOLS: OLD BROOKLYN COMMUNITY ELEMENTARY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 19, 2013**