

**CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE
RICHLAND 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: Mansfield Community Middle
1033 Larchwood Road
Mansfield, Ohio 44907

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Mansfield Community Middle, Richland 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: Mansfield Community Middle 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 31, 2013

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

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INDEPENDENT AUDITOR'S REPORT

November 19, 2013

To the Board of Trustees
Constellation Schools: Mansfield Community Middle
1033 Larchwood Road
Mansfield, OH 44907

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Constellation Schools: Mansfield Community Middle, Richland 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: MANSFIELD COMMUNITY MIDDLE

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2013

The discussion and analysis of Constellation Schools: Mansfield Community Middle (MCM) 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 MCM 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 MCM.

Financial Highlights

Key financial highlights for 2013 include the following:

- In total, net position decreased \$453,282, which represents a 64.4% decrease from 2012. This is due primarily to the sale of the building the school previously occupied for a net loss of \$389,187. Increased enrollment gains were offset by significant reductions in federal grants and increased operating expenses.
- Total assets decreased \$453,988, which represents a 64.2% decrease from 2012. This decrease is due to reductions in cash, prepaid expenses and the sale of the building the school previously occupied.
- Liabilities decreased \$706, which represents a 24.4% decrease from 2012. Vendor payables were liquidated during the year with a decrease in deferred revenue.
- Total operating revenues increased \$67,453, which represents a 7.7% increase from 2012. The majority of the revenue increase is from the State Foundation and Poverty Based Assistance program because of increased enrollment. Additional funding came from Casino taxes, materials fees and food services.
- Operating expenses increased \$497,053, which represents a 47.0% increase from 2012. Increases occurred in most expenses categories and are due to the enrollment increases of the school in 2013. \$389,187 of the increase is due to the sale of the previous building the school occupied.
- Non-operating revenues decreased \$110,401, which represents a 41.2% decrease from 2012. This includes decreases in federal grants with a minor increase in state grants.

Using this Financial Report

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

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Statement of Net Position

The Statement of Net Position looks at how well MCM 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 MCM.

| | <u>2013</u> | <u>2012</u> | <u>Change</u> | <u>%</u> |
|------------------------------|------------------|------------------|--------------------|---------------|
| Assets | | | | |
| Cash | \$112,568 | \$144,842 | (\$32,274) | -22.3% |
| Other Current Assets | 14,701 | 5,587 | 9,114 | 163.1% |
| Non-Current Assets | 25,000 | 25,000 | 0 | 0.0% |
| Capital Assets | <u>100,544</u> | <u>531,372</u> | <u>(430,828)</u> | <u>-81.1%</u> |
| Total Assets | <u>252,813</u> | <u>706,801</u> | <u>(453,988)</u> | <u>-64.2%</u> |
| Liabilities | | | | |
| Current Liabilities | <u>2,190</u> | <u>2,896</u> | <u>(706)</u> | <u>-24.4%</u> |
| Total Liabilities | <u>2,190</u> | <u>2,896</u> | <u>(706)</u> | <u>-24.4%</u> |
| Net Position | | | | |
| Investment in Capital Assets | 100,544 | 531,372 | (430,828) | -81.1% |
| Unrestricted | <u>150,079</u> | <u>172,533</u> | <u>(22,454)</u> | <u>-13.0%</u> |
| Total Net Position | <u>\$250,623</u> | <u>\$703,905</u> | <u>(\$453,282)</u> | <u>-64.4%</u> |

Net Position decreased \$453,282, due to a loss on the sale of the building previously owned by the school and increased enrollment that was accompanied by a corresponding increase in operating expenses. Decreases also occurred in federal grants due to the expiration of the stimulus programs. For assets, cash decreased \$32,274; due from other governments increased \$822; accounts receivable increased \$12,686, prepaid expenses decreased \$4,394, and net capital assets decreased \$430,828 during the year. For liabilities, accounts payable decreased \$316 and deferred revenues decreased \$390 during the year.

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE

Management's Discussion and Analysis
For the Fiscal 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 MCM 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 | \$928,429 | \$869,376 | \$59,053 | 6.8% |
| Other Operating Revenues | 14,735 | 6,335 | 8,400 | 132.6% |
| Total Operating Revenues | <u>943,164</u> | <u>875,711</u> | <u>67,453</u> | <u>7.7%</u> |
| Federal and State Grants | <u>157,255</u> | <u>267,656</u> | <u>(110,401)</u> | <u>-41.2%</u> |
| Total Non-Operating Revenues | <u>157,255</u> | <u>267,656</u> | <u>(110,401)</u> | <u>-41.2%</u> |
| | | | | |
| Total Revenues | <u>1,100,419</u> | <u>1,143,367</u> | <u>(42,948)</u> | <u>-3.8%</u> |
| Expenses | | | | |
| Salaries | 422,955 | 391,828 | 31,127 | 7.9% |
| Fringe Benefits | 125,105 | 120,704 | 4,401 | 3.6% |
| Purchased Services | 464,625 | 332,748 | 131,877 | 39.6% |
| Materials and Supplies | 47,508 | 96,746 | (49,238) | -50.9% |
| Capital Outlay | 13,683 | 15,075 | (1,392) | -9.2% |
| Depreciation and Amortization | 53,839 | 48,362 | 5,477 | 11.3% |
| Other Expenses | 36,799 | 51,185 | (14,386) | -28.1% |
| Loss on Sale of Capital Asset | <u>389,187</u> | <u>0</u> | <u>389,187</u> | <u>100.0%</u> |
| Total Expenses | <u>1,553,701</u> | <u>1,056,648</u> | <u>497,053</u> | <u>47.0%</u> |
| | | | | |
| Changes in Net Position | <u>(453,282)</u> | <u>86,719</u> | <u>(540,001)</u> | <u>-622.7%</u> |
| | | | | |
| Net Position: Beginning of the Year | <u>703,905</u> | <u>617,186</u> | <u>86,719</u> | <u>100.0%</u> |
| | | | | |
| Net Position: End of Year | <u>\$250,623</u> | <u>\$703,905</u> | <u>(\$453,282)</u> | <u>-64.4%</u> |

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2013

Net Position decreased in fiscal year ending June 30, 2013 and increased in fiscal year ended June 30, 2012. This is due to increased revenues, decreased federal grants and increases in staffing, student services, supplies, management services and facility costs to accommodate the enrollment growth in the school in both years plus a loss on the sale of the building the school owned during 2013. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

The most significant changes in revenue from 2012 to 2013 are increases of \$53,308 in State Foundation funding due to increased enrollment, \$2,745 in Casino tax collections, and \$110,807 in decreased federal grants to the school through the state of Ohio. Other revenue increases and decreases were minimal.

In total expenses increased \$497,053 from 2012 to 2013 because of a loss of \$389,187 on the sale of the building the school occupied plus expenses related to increased enrollment from 2012. Salaries and Fringe Benefits increased \$35,528 due to regular annual increases. Purchased services increased \$131,877 due to increases in instructional services, pupil support services, administrative services, occupancy costs and food services. Materials and Supplies decreased \$49,238 due to reduced purchases of text books and software. Capital Outlay decreased \$1,392, due to fewer purchases of furniture and equipment. Depreciation increased \$5,477 due to the acquisition of capitalized technology and software during the year. Other Operating Expenses decreased \$14,386 due to decreases in insurance premiums and real estate taxes.

Capital Assets

As of June 30, 2013, MCM had \$100,544 invested in building improvements, technology, software, furniture and equipment, net of depreciation. This is a \$430,828 decrease from June 30, 2012. The building the school previously occupied was sold during the year, accounting for \$406,708 of the reduction in capital assets for 2013.

The following schedule provides a summary of Capital Assets as of June 30, 2013 and 2012 for MCM:

| | <u>2013</u> | <u>2012</u> | <u>Change</u> | <u>%</u> |
|---|------------------|------------------|--------------------|---------------|
| Capital Assets (net of depreciation) | | | | |
| Land | \$0 | \$187,990 | (\$187,990) | -100.0% |
| Building | 0 | 218,718 | (218,718) | -100.0% |
| Building Improvements | 12,553 | 5,720 | 6,833 | 119.5% |
| Technology and Software | 41,078 | 64,685 | (23,607) | -36.5% |
| Furniture and Equipment | <u>46,913</u> | <u>54,259</u> | <u>(7,346)</u> | <u>-13.5%</u> |
| Net Capital Assets | <u>\$100,544</u> | <u>\$531,372</u> | <u>(\$430,828)</u> | <u>-81.1%</u> |

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

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Current Financial Issues

Constellation Schools: Mansfield Community Middle opened in August 2008 as Constellation Schools; Mansfield Visual & Performing Arts School. In its initial year of operations it had thirty-six students, three teaching staff members and expenses of \$509,545. The school opened with grades kindergarten through 3. For fiscal year 2010 the school contract was modified to change the school to be a middle school and to change the name to Constellation Schools: Mansfield Community Middle. In 2010 the school had a total of 56 students, six teaching staff members and expenses of \$611,140 and has grown to a total of 124 students, twelve teaching staff members and expense of \$1,553,701. During the year the building that was previously occupied by the school was sold for a book loss of \$389,187 which is included in the expenses for 2013. For more information on the sale see the Notes to the Financial Statements.

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 MCM 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 Middle
Richland County
Statement of Net Position
As of June 30, 2013**

Assets:

Current Assets:

| | |
|-----------------------------|-----------|
| Cash | \$112,568 |
| Due from Other Governments | 2,015 |
| Accounts Receivable | 12,686 |
| <i>Total Current Assets</i> | 127,269 |

Non-Current Assets:

| | |
|--|---------|
| Security Deposit | 25,000 |
| Capital Assets (Net of Accumulated Depreciation) | 100,544 |
| <i>Total Non-Current Assets</i> | 125,544 |

| | |
|---------------------|---------|
| <i>Total Assets</i> | 252,813 |
|---------------------|---------|

Liabilities:

Current Liabilities:

| | |
|------------------|-------|
| Accounts Payable | 2,010 |
| Deferred Revenue | 180 |
| | 180 |

| | |
|--------------------------|-------|
| <i>Total Liabilities</i> | 2,190 |
|--------------------------|-------|

Net Position:

| | |
|------------------------------|-----------|
| Investment in capital assets | 100,544 |
| Unrestricted | 150,079 |
| | 150,079 |
| <i>Total Net Position</i> | \$250,623 |

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

**Constellation Schools: Mansfield Community Middle
Richland 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 | \$928,429 |
| Other Operating Revenues | <u>14,735</u> |
| <i>Total Operating Revenues</i> | <u>943,164</u> |

Operating Expenses:

| | |
|---------------------------------|------------------|
| Salaries | 422,955 |
| Fringe Benefits | 125,105 |
| Purchased Services | 464,625 |
| Materials and Supplies | 47,508 |
| Capital Outlay | 13,683 |
| Depreciation | 53,839 |
| Other Operating Expenses | <u>36,799</u> |
| <i>Total Operating Expenses</i> | <u>1,164,514</u> |
| Operating Loss | <u>(221,350)</u> |

Non-Operating Revenues & Expenses:

| | |
|--|-------------------------|
| Loss on Sale of Capital Asset | (389,187) |
| Federal and State Grants | <u>157,255</u> |
| <i>Total Non-Operating Revenues & Expenses</i> | <u>(231,932)</u> |
| Change in Net Position | <u>(453,282)</u> |
| Net Position at Beginning of the Year | <u>703,905</u> |
| Net Position at End of Year | <u><u>\$250,623</u></u> |

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

**Constellation Schools: Mansfield Community Middle
Richland 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 | \$928,429 |
| Cash Payments to Suppliers for Goods and Services | (696,429) |
| Cash Payments to Employees for Services | (422,955) |
| Other Operating Revenues | <u>14,345</u> |
| Net Cash Used for Operating Activities | <u>(176,610)</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|--|----------------|
| Federal and State Grants Received | <u>156,534</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>156,534</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|--|-------------------------|
| Proceeds from Sale of Capital Asset | 18,150 |
| Payments for Capital Acquisitions | <u>(30,348)</u> |
| Net Cash Used for Capital and Related Financing Activities | <u>(12,198)</u> |
| Net Decrease in Cash | (32,274) |
| Cash at Beginning of Year | <u>144,842</u> |
| Cash at End of Year | <u><u>\$112,568</u></u> |

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

**Constellation Schools: Mansfield Community Middle
Richland County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013
(Continued)**

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

| | |
|----------------|-------------|
| Operating Loss | (\$221,350) |
|----------------|-------------|

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

| | |
|--------------|--------|
| Depreciation | 53,839 |
|--------------|--------|

Changes in Assets and Liabilities:

| | |
|--|-------|
| (Increase) in Due from Other Governments | (101) |
|--|-------|

| | |
|-----------------------------------|----------|
| (Increase) in Accounts Receivable | (12,686) |
|-----------------------------------|----------|

| | |
|------------------------------|-------|
| Decrease in Prepaid Expenses | 4,394 |
|------------------------------|-------|

| | |
|--------------------------------|-------|
| (Decrease) in Accounts Payable | (316) |
|--------------------------------|-------|

| | |
|--------------------------------|-------|
| (Decrease) in Deferred Revenue | (390) |
|--------------------------------|-------|

| | |
|-------------------|--------|
| Total Adjustments | 44,740 |
|-------------------|--------|

| | |
|--|-------------|
| Net Cash Used for Operating Activities | (\$176,610) |
|--|-------------|

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

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

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

I. Description of the School and Reporting Entity

Constellation Schools: Mansfield Community Middle (MCM), is a nonprofit corporation established on January 10, 2008 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On November 5, 2009, MCM was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of MCM. MCM, which is part of Ohio's education program, is independent of any school district. MCM may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MCM.

MCM was approved for operation under a contract dated February 29, 2008 between the Governing Authority of MCM as Constellation Schools: Mansfield Visual & Performing Arts School (MVPA) and Buckeye Community Hope Foundation (BCHF) the Sponsor. The contract has been renewed through June 30, 2015. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XII for further discussion of the sponsor services.

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

MCM operates under a five member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls MCM instructional facility staffed by twelve certificated full time teaching personnel and three support staff that provided services to 124 students. During 2013, the board members for MCM also serve as the board for Constellation Schools: Westside Community School of the Arts; Constellation Schools: Mansfield Community Elementary; Constellation Schools: Outreach Academy for Students with Disabilities and Constellation Schools: Eastside Arts Academy.

II. Summary of Significant Accounting Policies

The financial statements of MCM have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of MCM's accounting policies are described below.

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

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

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. MCM 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 MCM 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 MCM must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to MCM on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Change in Accounting Principles

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

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

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

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

concepts of net position, deferred outflows of resources and deferred inflows of resources.

4. Cash

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

5. Budgetary Process

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

6. Due From Other Governments

Monies due MCM 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. Depreciation of 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 Improvements | 10 to 20 |
| Technology & Software | 3 to 5 |
| Furniture and Equipment | 10 |

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

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

8. Intergovernmental Revenues

MCM 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. MCM 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 \$1,085,684.

9. Private Grants and Contributions

MCM receives grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. MCM did not receive any private grants and contributions for the 2013 school year.

10. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, MCM 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. MCM 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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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

12. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2013, the carrying amount of MCM's deposits totaled \$112,568 and its bank balance was \$124,856. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2013, none of the bank balance was exposed to custodial risk as discussed below, while \$124,856 was covered by the Federal Depository Insurance Corporation.

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

IV. Purchased Services

Purchased Services include the following:

| | |
|-----------------------------|-------------------------|
| Instruction | \$63,859 |
| Pupil Support Services | 60,278 |
| Staff Development & Support | 22,693 |
| Administrative | 88,656 |
| Occupancy Costs | 170,428 |
| Food Services | <u>58,711</u> |
| Total Purchased Services | <u><u>\$464,625</u></u> |

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

V. 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 | \$187,990 | \$0 | (\$187,990) | \$0 |
| Capital Assets Being Depreciated: | | | | |
| Building | 233,040 | 0 | (233,040) | 0 |
| Building Improvements | 6,220 | 13,040 | (6,220) | 13,040 |
| Technology and Software | 155,908 | 17,308 | 0 | 173,216 |
| Furniture and Equipment | 72,906 | 0 | 0 | 72,906 |
| Total Capital Assets Being Depreciated | <u>468,074</u> | <u>30,348</u> | <u>(239,260)</u> | <u>259,162</u> |
| Less Accumulated Depreciated: | | | | |
| Building | (14,322) | (4,855) | 19,177 | 0 |
| Building Improvements | (500) | (723) | 736 | (487) |
| Technology and Software | (91,223) | (40,915) | 0 | (132,138) |
| Furniture and Equipment | (18,647) | (7,346) | 0 | (25,993) |
| Total Accumulated Depreciation | <u>(124,692)</u> | <u>(53,839)</u> | <u>19,913</u> | <u>(158,618)</u> |
| Capital Assets Being Depreciated, Net of Accumulated Depreciation | <u>343,382</u> | <u>(23,491)</u> | <u>(219,347)</u> | <u>100,544</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$531,372</u> | <u>(\$23,491)</u> | <u>(\$407,337)</u> | <u>\$100,544</u> |

**CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

VI. Operating Lease

Effective August 15, 2012 MCM leases its facility from Constellation Schools: Mansfield Community Elementary (LCE) under a one-year lease agreement with the ability to renew annually. Under the terms of the lease MCM made monthly lease payments of \$4,000. MCE charged a total of \$48,000 from MCM for rent during the year. As of June 30, 2013, all monies due MCE from MCM have been paid.

VII. Loss on Sale of Capital Asset

On April 26, 2013 MCM sold by public auction the building it previously occupied for \$24,000 less closing costs of \$5,850. The building was donated to the school on January 13, 2010. The land and building had been valued by the Richland County Auditor at \$187,990 and \$233,040 respectively for a total value of \$421,030 and was based on the assessed value determined by the Richland County Auditor. At the time of the sale the Net Book Value of the property was \$187,990 for land, \$213,863 for the building and \$5,485 for building improvements. The net loss on the sale of the building has been calculated as follows:

| | |
|--|---------------------------|
| Contract Sales Price | \$24,000 |
| Closing Costs | (5,850) |
| Land | (187,990) |
| Building | (233,040) |
| Building Improvements | (6,220) |
| Accumulated Depreciation Building | 19,177 |
| Accumulated Depreciation Building Improvements | 736 |
| Total Purchased Services | <u><u>(\$389,187)</u></u> |

VIII. Risk Management

1. Property and Liability Insurance

MCM 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, MCM contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$4,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 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 the past three years of operations, nor has there been any significant reduction in insurance coverage from the prior year.

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2. Workers' Compensation

MCM makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been two claims filed by MCM 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 \$1,232. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of MCM as June 30, 2013.

3. Employee Medical, Dental, Vision and Life Benefits

MCM 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 MCM for the fiscal year is \$45,847.

IX. Defined Benefit Pension Plans

1. State Teachers Retirement System

MCM 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%.

MCM's required contributions for pension obligations for the fiscal years ended June 30, 2013, 2012 and 2011 were \$48,883, \$45,179 and \$37,035 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

MCM 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.

CONSTELLATION SCHOOLS: MANSFIELD COMMUNITY MIDDLE
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Plan members are required to contribute 10% of their annual covered salary and MCM 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. MCM's contributions to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$6,571, \$6,201 and \$4,248, respectively; 100% has been contributed for fiscal years 2013, 2012 and 2011.

X. 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 MCM's contributions to post-employment health care were \$3,760, \$3,475 and \$2,849, 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 EC contributions to Medicare Part B were \$347, \$337 and \$231, 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 MCM contributions to the Health Care Plan, including the surcharge were \$454, \$1,301 and \$892, respectively; 16.53% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011. \$379 representing the unpaid surcharge due for fiscal year 2013 is recorded as a liability within the respective funds.

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

XI. Contingencies

1. Grants

MCM 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 MCM. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCM 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.

XII. Sponsorship and Management Agreements

MCM entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective through June 30, 2015. Sponsorship fees are calculated as 3% of the Fiscal Year 2013 Foundation payments received by MCM, from the State of Ohio. The total amount due from MCM for fiscal year 2013 was \$27,738, all of which was paid prior to June 30, 2013.

MCM entered into an agreement with Constellation Schools LLC to provide legal, financial, and business 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 and State Fiscal Stabilization Funds payment received by MCM from the State of Ohio plus a fixed fee of \$57,750. In June 2013 CS issued a \$100,000 credit to MCM to reduce total management fees. After application of the credit, the total amount due from MCM for the fiscal year ending June 30, 2013 was \$15,567 all of which was paid prior to June 30, 2013.

XIII. Subsequent Event

On September 30, 2013 MCM finalized a lease for technology equipment. The principal amount of lease is \$4,043 with a term of three years and an interest rate of 0.5%

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November 19, 2013

To the Board of Trustees
Constellation Schools: Mansfield Community Middle
1033 Larchwood Road
Mansfield, OH 44907

**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: Mansfield Community Middle, Richland 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.

Constellation Schools: Mansfield Community Middle
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*.

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: Mansfield Community Middle
1033 Larchwood
Mansfield, OH 44907

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: Mansfield Community Middle (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: MANSFIELD COMMUNITY MIDDLE

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
JANUARY 14, 2014**