CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Constellation Schools

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

Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Stockyard Community Elementary
3200 West 65th Street
Cleveland, OH 44102

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Stockyard Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. 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: Stockyard Community Elementary is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

December 22, 2017

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

This page intentionally left blank.

CONSTELLATION SCHOOLS: STOCKYARD COMMUNITY ELEMENTARY
CUYAHOGA COUNTY, OHIO

TABLE OF CONTENTS

November 22, 2017

To the Board of Trustees
Constellation Schools: Stockyard Community Elementary
Cuyahoga County, Ohio
3200 West 65th Street
Cleveland, OH 44102

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Constellation Schools: Stockyard Community Elementary, Cuyahoga County, Ohio, (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note II.4, the School restated the net position balance to account for the reallocation of certain management company employees reported under one employer code within the state retirement systems, and their effect on the net pension liability, deferred outflows of resources and deferred inflows of resources. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School Contributions* on pages 5–11, 43, and 44-45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Cambridge, Ohio

This page intentionally left blank

The discussion and analysis of Constellation Schools: Stockyard Community Elementary (SCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the financial performance of SCE 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 SCE.

Financial Highlights

Key financial highlights for 2017 include the following:

- In total, net position decreased $465,968, which represents an 21.9% decrease from 2016. A combination of pension liability expenses, enrollment changes, federal grant programs and operating expenditures combined to generate the loss for the year.

- Total assets and deferred outflow of resources increased $789,712, which represents a 13.9% increase from 2016. This is due to increased cash, increases in capital assets from building improvements and equipment purchases and increases in deferred outflows of resources.

- Liabilities and deferred inflow of resources increased $1,255,680 which represents a 16.1% increase from 2016. Increases in vendor payables, interest payable, payroll payable and net pension liability were offset by decreases in unearned revenues, bonds payable, and deferred inflows of resources during the year.

- Operating revenues increased by $171,088, which represents an 6.8% increase from 2016. This is a result of a combination of increased state foundation funding, rent income and services provided to other schools.

- Expenses increased by $264,032 which represents a 7.6% increase from 2016. Operating expense increases are due to additional staff, services, materials, supplies and equipment which was not capitalized, offset by changes in net pension liabilities.

- Non-operating revenues increased $51,963, which represents a 9.8% increase from 2016. This increase is due to increased settlement of an insurance claim for property damages, receipts for federal grant programs and interest income.

Using this Financial Report

This report consists of three parts, the Financial Statements, Notes to the Financial Statements and Required Supplemental Information. The Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position looks at how well SCE has performed financially through June 30, 2017. This statement includes all of the assets, deferred outflow of resources, liabilities, deferred inflow of resources and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Position for fiscal years ended June 30, 2017 and 2016 for SCE.

	2017	Restated 2016	Change	%
Assets				
Cash	$534,817	$429,124	$105,693	24.6%
Other Current Assets	328,389	346,755	(18,366)	-5.3%
Non-Current Assets	411,204	395,128	16,076	4.1%
Capital Assets, Net	3,834,831	3,727,324	107,507	2.9%
Deferred Outflow of Resources	1,366,934	788,132	578,802	73.4%
Total Assets and Deferred Outflow of Resources	6,476,175	5,686,463	789,712	13.9%
Liabilities				
Current Liabilities	457,497	229,472	228,025	99.4%
Long-Term Liabilities	8,611,320	7,362,973	1,248,347	17.0%
Deferred Inflow of Resources	0	220,692	(220,692)	-100.0%
Total Liabilities and Deferred Inflow of Resources	9,068,817	7,813,137	1,255,680	16.1%
Net Position				
Net Investment in Capital Assets	99,904	282,688	(182,784)	-64.7%
Net Restricted for Debt Purposes	236,450	217,063	19,387	8.9%
Unrestricted	(2,928,996)	(2,626,425)	(302,571)	11.5%
Total Net Position	($2,592,642)	($2,126,674)	($465,968)	-21.9%

Net Position decreased $465,968, due to a combination of revenue increases offset by increased operating expenses in 2017 as well as changes in pension liability from 2016. Cash increased $105,693; prepaid expenses increased $19,588; bond escrow accounts decreased $108; due from other governments decreased $37,845; bond reserve accounts increased $16,076; deferred outflow of resources increased $578,802 and net capital assets increased $107,507 from 2016. Accounts payable increased $66,047; Payroll payable increased $85,868; interest payable increased $410; due to other governments increased $7,319; unearned revenues decreased $1,150; loans payable decreased $21,961; equipment leases payable increased $337,419; bonds payable decreased $42,712; net pension liability increased $1,045,142 and deferred inflow of resources decreased $220,692 from 2016.

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, 2017. The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for SCE for fiscal years ended June 30, 2017 and 2016.

	2017	Restated 2016	Change	%
Revenues				
Foundation and Poverty Based Assistance Revenues	$2,333,222	$2,300,554	$32,668	1.4%
Casino Tax Distribution	13,442	14,028	(586)	-4.2%
Other Operating Revenues	333,283	194,277	139,006	71.6%
Total Operating Revenues	2,679,947	2,508,859	171,088	6.8%
Interest Income	354	211	143	67.8%
Insurance Proceeds	51,081	0	51,081	100.0%
Federal and State Grants	529,272	528,533	739	0.1%
Total Non-Operating Revenues	580,707	528,744	51,963	9.8%
Total Revenues	3,260,654	3,037,603	223,051	7.3%
Expenses				
Salaries	1,359,183	1,230,592	128,591	10.4%
Fringe Benefits	398,785	354,926	43,859	12.4%
Change in Net Pension Liability	231,523	358,692	(127,169)	-35.5%
Purchased Services	1,093,532	964,026	129,506	13.4%
Materials and Supplies	93,038	83,730	9,308	11.1%
Capital Outlay	60,334	14,087	46,247	328.3%
Depreciation	152,135	123,603	28,532	23.1%
Other Expenses	338,092	332,934	5,158	1.5%
Total Expenses	3,726,622	3,462,590	264,032	7.6%
Changes in Net Position	(465,968)	(424,987)	(40,981)	-9.6%

Net Position decreased in both fiscal years ending June 30, 2017 and June 30, 2016. This is due to a combination of pension liability expenses, enrollment changes, federal grant programs and operating expenditures in both years 2017 and 2016. 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.

Overall, revenues increased by $223,051 from 2016 to 2017. The most significant changes in revenues are increases of $32,668 from State Foundation and Poverty Based Assistance funds, increases in rental income of $75,000, increases in services to other schools of $43,007, increases in Federal Funds totaling $6,668 and an insurance claim settlement totaling $51,081 with minor decreases in other revenue sources.

Overall expenses increased from 2016 to 2017. This is a result of normal annual increases in operating costs, student services, facility operations and supply purchases as well as improved program offerings at the school. Salaries and Fringe Benefits increased $172,450 due to increased staff including for services billed to other schools and regular annual salary increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68. Purchased services increased by $129,506 due to pupil instruction and support services, special education services, professional development, administrative services and occupancy costs. Materials and Supplies increased by $9,308 due to increased purchases of online instruction. Capital Outlay increased $46,247 due to purchases of technology and equipment which was not capitalized. Depreciation increased $28,532 due to additional building improvements and equipment. Other Expenses increased $5,158 due to increased interest and insurance premiums.

Capital Assets

As of June 30, 2017, SCE had $3,834,831 invested in land, building, building improvements, technology and software, furniture and equipment, net of depreciation. This is a $107,507 increase from June 30, 2016**.** The following schedule provides a summary of Capital Assets as of June 30, 2017 and 2016 for SCE.

	2017	2016	Change	%
Capital Assets (net of depreciation)				
Land	$380,000	$380,000	$0	0.0%
Building	434,625	448,875	(14,250)	-3.2%
Building Improvements	2,952,502	2,833,671	118,831	4.2%
Technology and Software	48,724	41,521	7,203	17.3%
Furniture and Equipment	18,980	23,257	(4,277)	-18.4%
Net Capital Assets	$3,834,831	$3,727,324	$107,507	2.9%

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

Bond Debt Service

On April 10, 2014 SCE shared in the closing of a multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, along with escrow and reserve deposits from a 2008 bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due. The CCCPA bond refinance allowed SCE to acquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at SCE. SCE provided a mortgage on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, varies from a rate of 5.00% per annum to 7.75%. The outstanding principal balance, net of unamortized original bond discount, as of June 30, 2017 is $4,004,665. For more information on debt service see the Notes to the Financial Statements.

Equipment Financing

During fiscal year 2014, SCE secured a four-year loan with CF Bank to purchase $77,982 of technology equipment. The loan is for a term of 4 years with interest at 3.99% per annum. In fiscal year 2015, SCE secured a second four-year loan with CF Bank to purchase another $6,197 of technology equipment. The outstanding balance of the loans as of June 30, 2017 are $6,992 and $2,574 respectively.

During the 2017 fiscal year, the school entered into a lease agreement with Winthrop to acquire $7,889 of technology equipment and $344,808 for building equipment and components. This lease is for a term of 48 months and expires in April 2021 at which time the equipment will have minimal value. 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 outstanding balance of the lease as of June 30, 2017 is $337,945.

Net Pension Liabilities

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

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

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

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

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

As a result of implementing GASB 68, SCE is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of $429,076.

Current Financial Issues

Constellation Schools: Stockyard Community Elementary opened in the fall of 2004. The school has grown from 35 students, three teaching staff members and expenses of $410,613 to a total of 270 students, 30 teaching staff members and expenses of $3,726,622. SCE exercised its' purchase option and arranged for the sale of the building and land which it leased to The Industrial Development Authority of the County of Pima. Title to the property was transferred to SCE during 2014 as part of the bond refinancing with the CCCPA.

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

Contacting the School's Financial Management

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

This page intentionally left blank

Constellation Schools: Stockyard Community Elementary
Cuyahoga County, Ohio
Statement of Net Position
As of June 30, 2017

Assets:	
Current Assets:	
Cash	$534,817
Escrow Accounts	171,327
Prepaid Expenses	33,034
Due from Other Governments	124,028
Total Current Assets	863,206
Non-Current Assets:	
Security Deposit	25,464
Bond Reserve Accounts	385,740
Non-Depreciable Capital Assets	380,000
Capital Assets (Net of Accumulated Depreciation)	3,454,831
Total Non-Current Assets	4,246,035
Total Assets	5,109,241
Deferred Outflow of Resources:	
Unamortized Deferred Charges on Bond Refinancing	296,631
Pension (STRS & SERS)	1,070,303
Total Deferred Outflow of Resources	1,366,934
Total Assets and Deferred Outflow of Resources	6,476,175
Liabilities:	
Current Liabilities:	
Accounts Payable	94,371
Interest Payable	129,060
Payroll Payable	85,868
Due to Other Governments	9,948
Unearned Revenue	2,605
Loan Payable	8,598
Capital Lease Equipment Payable	81,414
Capital Lease Bond Notes Payable	45,633
Total Current Liabilities	457,497
Long Term Liabilities:	
Loan Payable	967
Capital Lease Equipment Payable	256,531
Capital Lease Bond Notes Payable	3,959,032
Net Pension Liability	4,394,790
Total Long Term Liabilities	8,611,320
Total Liabilities	9,068,817
Net Position:	
Net Investment in Capital Assets	99,904
Net Restricted for Debt Purposes	236,450
Unrestricted	(2,928,996)
Total Net Position	($2,592,642)

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

Constellation Schools: Stockyard Community Elementary
Cuyahoga County, Ohio
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$2,333,222
Casino Tax Distribution	13,442
Other Operating Revenues	333,283
Total Operating Revenues	2,679,947
Operating Expenses:	
Salaries	1,359,183
Fringe Benefits	398,785
Change in Net Pension Liability	231,523
Purchased Services	1,093,532
Materials and Supplies	93,038
Capital Outlay	60,334
Depreciation	152,135
Other Operating Expenses	54,182
Total Operating Expenses	3,442,712
Operating Loss	(762,765)
Non-Operating Revenues & Expenses:	
Interest Income	354
Insurance Proceeds	51,081
Interest Expense	(283,910)
Federal and State Grants	529,272
Total Non-Operating Revenues & Expenses	296,797
Change in Net Position	(465,968)
Net Position at Beginning of the Year – Restated (See Note II.4)	(2,126,674)
Net Position at End of Year	($2,592,642)

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

Constellation Schools: Stockyard Community Elementary
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$2,346,664
Cash Payments to Suppliers for Goods and Services	(1,652,053)
Cash Payments to Employees for Services	(1,273,315)
Other Operating Revenues	332,133
Net Cash Used for Operating Activities	(246,571)
Cash Flows from Noncapital Financing Activities:	
Insurance Proceeds	51,081
Federal and State Grants Received	573,078
Net Cash Provided by Noncapital Financing Activities	624,159
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(251,753)
Decrease in Escrow Funds	108
Increase in Bond Reserve Accounts	(16,075)
Bond Principal Payments	(43,619)
Bond Interest Payments	(266,018)
Equipment Lease Proceeds	344,808
Equipment Lease Principal Payments	(15,278)
Equipment Lease Interest Payments	(1,593)
Loan Principal Payments	(21,961)
Loan Interest Payments	(868)
Net Cash Used for Capital and Related Financing Activities	(272,249)
Cash Flows from Investing Activities	
Interest	354
Net Cash Provided by Investing Activities	354
Net Increase in Cash	105,693
Cash at Beginning of Year	429,124
Cash at End of Year	$534,817

Non Cash Transaction: At June 30, 2017 the school purchased $7,889 in capital assets on account.

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

Constellation Schools: Stockyard Community Elementary
Cuyahoga County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(Continued)

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

Operating Loss	($762,765)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	152,135
Changes in Assets, Liabilities, Deferred Inflows of Resources and Deferred Outflows of Resources:	
(Increase) in Prepaid Expenses	(19,588)
(Increase) in Due from Other Governments	(5,960)
(Increase) in Deferred Outflows - Pensions	(592,927)
Increase in Accounts Payable	66,047
Increase in Payroll Payable	85,868
Increase in Due to Other Governments	7,319
(Decrease) in Unearned Revenue	(1,150)
Increase in Net Pension Liability	1,045,142
(Decrease) in Deferred Inflows - Pensions	(220,692)
Total Adjustments	516,194
Net Cash Used for Operating Activities	($246,571)

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

I. Description of the School and Reporting Entity

Constellation Schools: Stockyard Community Elementary (SCE), is a nonprofit corporation established on October 17, 2001 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On May 5, 2003, SCE (as Lorain-Southside Community 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 SCE. SCE, which is part of Ohio's education program, is independent of any school district. SCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of SCE.

SCE was approved for operation under a contract between the Governing Authority of SCE and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 SCE entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2018. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XV for further discussion of the sponsor services.

SCE entered into an agreement with Constellation Schools (CS) to provide legal, financial, business and educational management services for the fiscal year. The agreement may be renewed annually. See Note XV for further discussion of this management agreement.

SCE 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 SCE instructional facility staffed by 30 certificated full time teaching personnel and 10 support staff who provide services to 270 students. During 2017, the board members for SCE also serve as the board for Constellation Schools: Westpark Community Elementary, Puritas Community Elementary and Constellation Schools: Madison Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of SCE 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 SCE'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, deferred outflow of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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

3. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, SCE has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB*

Statement No. 14 and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of SCE.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of SCE.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of SCE.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in SCE's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

4. Restatement of Net Position

Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the net pension liability, deferred outflows of resources, deferred inflows of resources and the related pension expense should be allocated to each of the schools. This allocation had the following effect on beginning net position:

Previously Reported Net Position	$	(1,731,222)
Adjustments:		
Deferred Outflows - Pension		51,643
Net Pension Liability		(406,779)
Deferred Inflows - Pension		(40,316)
Restated Net Position, July 1, 2016	$	(2,126,674)

5. Cash

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

6. Budgetary Process

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

7. Due From Other Governments and Accounts Receivable

Monies due SCE for the year ended June 30, 2017 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

8. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital 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 and construction in process. Depreciation of buildings, building improvements, computers, technology and software, furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital 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

9. Intergovernmental Revenues

SCE currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. SCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2017 school year totaled $2,875,936.

10. Private Grants and Contributions

SCE received grants and contributions from private sources to support the school's programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. SCE did not receive any private grants or contributions for the 2017 fiscal year.

11. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, SCE 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. SCE 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.

12. Pensions

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

13. 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.

14. Unearned Revenue

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

15. Deferred Inflows of Resources and Deferred Outflows of Resources

A deferred outflow of resources is a consumption of assets by SCE that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflow of resources related to pension is described in Note XII.

A deferred inflow of resources is an acquisition of assets by SCE that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The deferred inflow of resources related to pension is described in Note XII.

When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. Deferred charges on refunding result from the difference in the carrying value of refunded debt to its reacquisition price. This amount is deferred and amortized over the shorter period of the life of the refunded debt or of the refunding debt.

III. Deposits

At fiscal year end June 30, 2017, the carrying amount of SCE's deposits totaled $534,817 and its bank balance was $553,101. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2017, $303,101, of the bank balance was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of SCE and the Cleveland Cuyahoga County Port Authority totaled $557,067 at fiscal year end June 30, 2017. The escrow accounts are invested in the US Treasury and are 100% backed by the full faith and credit of the United States government. Reserve accounts are invested in U.S. Bank Open Commercial Paper instruments.

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

IV. Capital Assets

A summary of capital assets at June 30, 2017 follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Capital Assets Not Being Depreciated:				
Land	$380,000	$0	$0	$380,000
Capital Assets Being Depreciated:				
Building	570,000	0	0	570,000
Building Improvements	3,113,478	218,679	0	3,332,157
Technology and Software	168,622	34,399	0	203,021
Furniture and Equipment	110,476	6,564	0	117,040
Total Capital Assets Being Depreciated	3,962,576	259,642	0	4,222,218
Less Accumulated Depreciation:				
Building	(121,125)	(14,250)	0	(135,375)
Building Improvements	(279,807)	(99,848)	0	(379,655)
Technology and Software	(127,101)	(27,196)	0	(154,297)
Furniture and Equipment	(87,219)	(10,841)	0	(98,060)
Total Accumulated Depreciation	(615,252)	(152,135)	0	(767,387)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	3,347,324	107,507	0	3,454,831
Total Capital Assets, Net of Accumulated Depreciation	$3,727,324	$107,507	$0	$3,834,831

V. Purchased Services

Purchased Services include the following:

Instruction	$208,333
Pupil Support Services	68,032
Staff Development & Support	73,588
Administrative	404,431
Occupancy Costs	200,182
Transportation	28,392
Food Services	108,864
Student Activities	1,710
Total Purchased Services	$1,093,532

VI. Loan Payable

During fiscal year 2014, SCE secured a four-year loan with CF Bank to purchase $77,982 of technology equipment (accumulated depreciation as of June 30, 2017 is $71,890). The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on October 15, 2017. Equipment purchased with loan proceeds has been capitalized.

During fiscal year 2015, SCE secured a four-year loan with CF Bank to purchase $6,197 of technology equipment (accumulated depreciation as of June 30, 2017 is $3,808). The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on January 15, 2019. Equipment purchased with loan proceeds has been capitalized.

Principal payments during fiscal year 2017 totaled $21,961 and interest paid totaled $868. Future minimum loan payments for principal and interest under the capital lease are as follows:

	CF Bank - 2014			CF Bank 2015		
Year	Principal	Interest	Total	Principal	Interest	Total
2018	$6,992	$58	$7,050	$1,606	$74	$1,680
2019	0	0	0	968	12	980
Total	$6,992	$58	$7,050	$2,574	$86	$2,660

VII. Capital Equipment Lease Payable

On September 30, 2013, SCE entered into a three-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 $4,711 have been capitalized (accumulated depreciation as of June 30, 2017 is $4,417). 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.

During fiscal year 2017, MDCE entered into a forty-eight-month lease for technology and facilities equipment with Winthrop Leasing. The facilities equipment was capitalized in the previous year with Winthrop Leasing providing the lease funds during the current year. This lease meets the criteria of capital leases 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 totaling $352,697 have been capitalized (accumulated depreciation as of June 30, 2017 is $16,492). 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 2017 totaled $15,278 and interest paid totaled $1,593. Future minimum lease payments for principal and interest under both capital leases are as follows:

Year	Principal	Interest	Total
2018	$81,414	$16,584	$97,998
2019	86,015	11,983	97,998
2020	90,876	7,122	97,998
2021	79,640	2,025	81,665
Total	$337,945	$37,714	$375,659

VIII. School Building Purchase

In order to finance a multi-million dollar expansion project during fiscal year 2008 the building and land located at 3200 West 65th Street in Cleveland was purchased by The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. SCE leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was turned over to the ownership of SCE (See Note IX). The original purchase price and building improvements under the capitalized lease continue to be recognized as capital assets and are being depreciated over their remaining useful life.

IX. Capital Lease Bond Notes Payable

On April 10, 2014 SCE closed a $30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). Underwriters' discounts totaling $538,825 and original bond discounts of $163,934 were deducted from the bond proceeds at issuance. A portion of the proceeds, along with escrow and reserve deposits from a prior bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due (See Note X). In addition, $4,953,849 of the CCCPA bonds is financing multi-million dollar building acquisition, renovation and expansion projects to meet increasing demand for enrollment for the participating schools.

The properties are managed through annual lease and sub-lease arrangements. SCE and the CCCPA secured mortgages on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, is at the rate of 5.00% per annum for the bonds maturing between 2015 and 2017 (Series B); 5.75% for the bonds maturing between 2018 and 2024 (Series A); 6.50% for the bonds maturing between 2025 and 2034(Series A); and 7.75% for the bonds maturing between 2035 and 2044 (Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2017 is $4,004,665 and interest payable due July 1, 2017 is $127,481. Interest paid during 2017 totaled $266,018. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/16	Additions	Reductions	6/30/17	Due In One Year
Series A	$4,023,719	$0	$0	$4,023,719	$45,633
Series B	43,619	0	(43,619)	0	0
Bond Discount	(19,962)	0	908	(19,054)	0
TOTALS	$4,047,376	$0	($42,711)	$4,004,665	$45,633

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 bond issuance continue to be recognized as capital assets and are being depreciated over their remaining useful life. SCE's share of bond issuance costs totaling $195,026 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by $342,538. Loss on refinancing is reported as "Unamortized Deferred Charges on Bond Refinancing" and is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. The original bond discount, which totaled $22,002 for SCE, is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. As of June 30, 2017 the unamortized balances for the cost to refinance and the bond discount are $296,631 and $19,054 respectively.

The Bond Indenture requires SCE to meet certain covenants. As of June 30, 2017 SCE did not meet the required debt service coverage ratio. Unless waived by the owners of a majority of the principal amount of bonds outstanding, the school will be required to hire a management consultant to make recommendations with respect to increasing revenues, decreasing expenses or other financial matters of the school which are relevant to increasing the DSCR to at least 1.00 to 1.10.

As part of the agreements for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for renovation and financing activities have been paid from these accounts through June 30, 2017. Lease payments were made by SCE to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into a Debt Service Reserve Account to meet future debt service needs. Lease payments made during 2017 to fund interest, reserves and bond expenses totaled $336,167.

The balances of escrow and reserve accounts as of June 30, 2017 are as follows:

Bond Debt Service Account	$157,107
Expense Fund	14,220
Total Bond Escrow Accounts	$171,327
Debt Service Reserve	$330,342
Operating Reserve	55,398
Total Bond Reserve Accounts	$385,740

The assets refinanced and acquired through the capital lease as of June 30, 2017 are as follows:

Land	$380,000
Building	570,000
Building Improvements	2,135,933
Sub-Total	3,085,933
Accumulated Depreciation	(377,570)
Net Book Value	$2,708,363

Future minimum lease payments for principal and interest on the face value of the Series 2014 bonds (does not include amortization of the loss to refinance the Series 2008 bonds or the bond discount on the Series 2014 bonds) under the capital lease are as follows:

Year	Principal	Interest	Total
2018	$45,633	$263,837	$309,469
2019	48,317	261,213	309,530
2020	67,107	258,435	325,541
2021	71,133	254,576	325,709
2022	75,831	250,486	326,316
2023 - 2027	450,957	1,179,879	1,630,836
2028 - 2032	620,066	1,014,727	1,634,793
2033 - 2037	854,940	783,463	1,638,402
2038 - 2042	1,191,144	453,967	1,645,111
2043 - 2044	598,592	61,287	659,879
Total	$4,023,719	$4,781,869	$8,805,587

X. Refunded Capital Lease Bond Notes Payable

On April 10, 2014 SCE closed a $30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, $22,004,213, along with escrow and reserve deposits from a prior bond issue, $5,245,493, were used to advance refund the entire Constellation Schools Series 2008 Bonds issued by The Industrial Development Authority of the County of Pima (See Note IX). The refunding portion of the issue, along with the escrow and reserve accounts from the 2008 issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the bonds when they come due.

XI. Risk Management

1. Property and Liability Insurance

SCE 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 2017, SCE contracted with Traveler's Property Casualty Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile insurance.

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, Cyber Liability and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

2. Workers' Compensation

SCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been three claims filed by SCE employees with the Ohio Worker's Compensation System between January 1, 2012 and June 30, 2017. The total payments made for these claims have been $871. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of SCE as June 30, 2017.

3. Employee Medical, Dental, Vision and Life Benefits

SCE 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 SCE for the fiscal year is $169,827.

XII. Defined Benefit Pension Plans

1. Net Pension Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in due to other governments on the accrual basis of accounting.

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and SCE is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

SCE's contractually required contribution to SERS was $58,275 for fiscal year 2017.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. SCE was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

SCE's contractually required contribution to STRS was $139,278 for fiscal year 2017.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. SCE's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 3,722,263	$ 672,527	$ 4,394,790
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01112019%	0.00918868%	
Prior Measurement Date	0.01023460%	0.00913240%	
Change in Proportionate Share	0.00088559%	0.00005628%	
Pension Expense	$ 350,061	$ 79,015	$ 429,076

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in SCE's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five-year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, SCE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 150,398	$ 9,072	$ 159,470
Net Difference between Projected and Actual Earnings on Pension Plan Investments	309,048	55,474	364,522
Changes of Assumptions	0	44,895	44,895
Changes in Proportion and Differences between SCE Contributions and Proportionate Share of Contributions	283,398	20,465	303,863
SCE Contributions Subsequent to the Measurement Date	139,278	58,275	197,553
Total Deferred Outflows of Resources	$ 882,122	$ 188,181	$ 1,070,303
Deferred Inflows of Resources			
Changes in Proportion and Differences between SCE Contributions and Proportionate Share of Contributions	$ 0	$ 0	$ 0

$197,553 reported as deferred outflows of resources related to pension resulting from SCE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$ 150,402	$ 36,606	$ 187,008
2019	150,401	36,568	186,969
2020	268,993	40,784	309,777
2021	173,048	15,948	188,996
	$ 742,844	$ 129,906	$ 872,750

5. Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of SCE's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents SCE's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCE's Proportionate Share of the Net Pension Liability	$ 890,383	$ 672,527	$ 490,171

6. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of SCE's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents SCE's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what SCE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
SCE's Proportionate Share of the Net Pension Liability	$ 4,946,585	$ 3,722,263	$ 2,689,475

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to SCE's net pension liability is expected to be significant.

XIII. Post-Employment Benefits

1. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, SCE's surcharge obligation was $2,208.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. SCE's contributions for health care for the fiscal year ended June 30, 2015, was $4,303. The full amount has been contributed for fiscal year 2015.

2. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, EC did not contribute to health care in the last three fiscal years.

XIV. Contingencies

1. Grants

SCE 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 SCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of SCE at June 30, 2017.

2. School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on SCE for fiscal year 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of SCE.

In addition, SCE's contracts with their Sponsor, ESC of Lake Erie West and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by SCE from the State (See Note XV). As discussed above, FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to fee calculation changes necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, SCE.

XV. Sponsorship and Management Agreements

SCE 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, 2018. Sponsorship fees were calculated as 2.00% of the Fiscal Year 2017 Foundation payments received by SCE, from the State of Ohio through December 31, 2016 and at 2.5% beginning January 1, 2017. The total amount due from SCE for fiscal year 2017 was $51,098, all of which was paid prior to June 30, 2017.

SCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2017. The agreement was for a period of one year, effective July 1, 2016. Management fees are calculated as 6.25% of the Fiscal Year 2017 Foundation payment received by SCE from the State of Ohio plus a fixed fee of $150,000. The total fee cannot exceed twice the fixed fee. The total amount due from SCE for the fiscal year ending June 30, 2017 was $295,496 all of which was paid prior to June 30, 2017.

XVI. Net Restricted for Debt Purposes

Net restricted for debt purposes represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Project Fund, which is included in Escrow Accounts, is being held for construction purposes and was partially liquidated during the fiscal year. The Bond Debt Service Account and the Expense Fund, which are included in Escrow Accounts, along with the Debt Service Reserve and Operating Reserve Accounts, which are being held for bond financing reserve requirements, will continue to be funded until January 1, 2044.

This page intentionally left blank

Constellation Schools: Stockyard Community Elementary
Cuyahoga County
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years (1)

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
SCE's Proportion of the Net Pension Liability	0.01112019%	0.01023460%	0.00975831%	0.00975831%
SCE's Proportionate Share of the Net Pension Liability	$3,722,263	$2,828,544	$2,373,559	$2,827,368
SCE's Covered Payroll (2)	$1,176,671	$901,114	$890,323	$985,823
SCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	316.34%	313.89%	266.60%	286.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
SCE's Proportion of the Net Pension Liability	0.00918868%	0.00913240%	0.00857889%	0.00857889%
SCE's Proportionate Share of the Net Pension Liability	$672,527	$521,104	$434,173	$510,159
SCE's Covered Payroll (2)	$299,114	$169,112	$172,900	$113,692
SCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	224.84%	308.14%	251.11%	448.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal years 2016 and 2017 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Constellation Schools: Stockyard Community Elementary
Cuyahoga County
Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$139,278	$164,734	$126,156	$115,742
Contributions in Relation to the Contractually Required Contribution	(139,278)	(164,734)	(126,156)	(115,742)
Contribution Deficiency (Excess)	$0	$0	$0	$0
SCE's Covered Payroll	$994,843	$1,176,671	$901,114	$890,323
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
School Employees Retirement System (SERS)				
Contractually Required Contribution	$58,275	$41,876	$22,289	$23,964
Contributions in Relation to the Contractually Required Contribution	(58,275)	(41,876)	(22,289)	(23,964)
Contribution Deficiency (Excess)	$0	$0	$0	$0
SCE's Covered Payroll	$416,250	$299,114	$169,112	$172,900
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

Note - Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the contributions related to these employees should be allocated to each of the schools. Fiscal year 2017 and 2016 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

2013	2012	2011	2010	2009	2008
$128,157	$129,118	$128,299	$129,646	$112,793	$86,673
(128,157)	(129,118)	(128,299)	(129,646)	(112,793)	(86,673)
$0	$0	$0	$0	$0	$0
$985,823	$993,215	$986,915	$997,277	$867,638	$666,715
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$15,735	$15,581	$13,307	$9,667	$10,725	$8,814
(15,735)	(15,581)	(13,307)	(9,667)	(10,725)	(8,814)
$0	$0	$0	$0	$0	$0
$113,692	$115,844	$105,863	$71,396	$108,994	$89,756
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

This page intentionally left blank

November 22, 2017

To the Board of Trustees
Constellation Schools: Stockyard Community Elementary
Cuyahoga County, Ohio
3200 West 65th Street
Cleveland, OH 44102

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Constellation Schools: Stockyard Community Elementary, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2017, 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 22, 2017, wherein we noted the School restated net position balance to account for the reallocation of certain management company employees reported under one employer code within the state retirement systems, and their effect on the net pension liability, deferred outflows of resources and deferred inflows of resources.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Cambridge, Ohio

STOCKYARD 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
JANUARY 4, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov