



**Auditor of State
Betty Montgomery**

WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	9
Notes to the Basic Financial Statements	13
Independent Accountants' Report on Internal Control over Financial Reporting And on Compliance and other Matters Required by <i>Government Auditing Standards</i>	27

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Westpark Community School
Cuyahoga County
16210 Lorain Road
Cleveland, Ohio 44035

We have audited the accompanying financial statements of the Westpark Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Westpark Community School, Cuyahoga County, Ohio, as of June 30, 2005 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 23, 2005

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of Westpark Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2005 include the following:

- In total, net assets increased \$246,237, which represents a 64.9% increase from 2004. This increase is due primarily to increased enrollment resulting in increased state funding and federal subsidies and from managing expenditures.
- Total assets increased \$178,184, which represents an 11.9% increase from 2004. This increase is due to an increase in the year end cash of \$271,109, offset by a decrease in other current assets of \$52,698 and in net capital assets of \$39,727. The cash balance increase is due to cash flow efficiencies due to the growth of the school. The decrease in current assets is due to the collection of 2004 DPIA funds from the State of Ohio during fiscal year 2005 and in capital assets is due primarily to depreciation of capital assets.
- Liabilities decreased \$68,053, which represents a 6.1% decrease from 2004. Mortgages payable decreased by \$66,458, accounts payable decreased by \$12,422, deferred revenue increased by \$12,236 and other current liabilities (mainly payroll related) decreased by a total of \$1,409.
- Operating revenues increased by \$285,042, which represents a 22.3% increase from 2004. The majority of this increase (\$342,949) is due to increased enrollment resulting in increased state funding, materials fees and student activity revenue offset by a reduction in Other Operating Revenues from no longer leasing building space in fiscal year 2005.
- Operating expenses increased by \$201,381, which represents a 15.4% increase from 2004. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues decreased by \$32,987, which represents a 14.4% decrease from 2004. This decrease is due mainly to receiving the final installment of federal start-up grant funds in fiscal year 2004 (decrease of \$105,000) offset by decreased federal title grants and state grants in the amount of \$40,894, increased contributions of \$5,724 and increased interest earned of \$2,183.

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2005. This statement includes all of the assets, liabilities and equity balances 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 of the School's Statement of Net Assets for fiscal years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 541,831	\$ 270,722
Other Current Assets	2,145	54,843
Security Deposits	-0-	500
Capital Assets	<u>1,127,600</u>	<u>1,167,327</u>
Total Assets	<u>1,671,576</u>	<u>1,493,392</u>
Liabilities		
Current Liabilities	54,295	55,890
Long-Term Liabilities	<u>991,816</u>	<u>1,058,274</u>
Total Liabilities	<u>1,046,111</u>	<u>1,114,164</u>
Net Assets		
Net Assets	<u>625,465</u>	<u>379,228</u>
Total Liabilities and Net Assets	<u>\$1,671,576</u>	<u>\$1,493,392</u>

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Net Assets increased \$246,237, due primarily to increased enrollment. For assets, cash increased \$271,109; due from other governments decreased \$53,198; accounts receivable increased \$500 and net capital assets decreased \$39,727 from 2004. For liabilities, accounts payable decreased \$12,422; due to other governments decreased \$7,941; accrued wages and benefits increased \$1,288; interest payable increased \$5,244; deferred revenues increased \$12,236 and mortgage notes payable decreased \$66,458 from 2004.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2005.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Revenues		
Foundation and DPIA Revenues	\$1,510,960	\$1,168,011
Other Operating Revenues	50,870	108,777
Interest	3,560	1,377
Federal and State Grants	179,481	220,375
Private Grants and Contributions	<u>12,349</u>	<u>6,625</u>
Total Revenues	<u>1,757,220</u>	<u>1,505,165</u>
Expenses		
Salaries	602,251	479,622
Fringe Benefits	167,824	152,669
Purchased Services	482,570	437,738
Materials and Supplies	94,205	89,670
Capital Outlay	2,646	29,349
Depreciation	58,350	53,688
Other Operating Expenses	<u>103,137</u>	<u>66,866</u>
Total Expenses	<u>1,510,983</u>	<u>1,309,602</u>
Net Income	246,237	195,563
Net Assets at Beginning of Year	<u>379,228</u>	<u>183,665</u>
Net Assets at End of Year	<u>\$ 625,465</u>	<u>\$ 379,228</u>

Net Assets increased in both fiscal years ending June 30, 2004 and 2005. This is due primarily to increasing revenues due from increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The most significant increases in revenues from 2004 to 2005 are Foundation and DPIA (increased \$342,949) due to enrollment increases and increases in formula amounts and Federal and State Grants (decreased \$40,894) due to receiving the final installment (\$105,000) of federal start-up grants in fiscal year 2004, offset by increased title allocations (\$64,106). In addition, Private Grants and Contributions increased \$5,724.

Most areas of expenses increased from 2004 to 2005. Salaries and Fringe Benefits increased (\$137,784) due to additional staffing and annual increases; Purchased services increased (\$44,832) due to additional instructional services, pupil support services, administrative services and occupancy costs. Materials and Supplies increased (\$4,535) due to additional purchases of text book and classroom supplies for new classes and for facilities supplies. Depreciation increased (\$4,662) as a direct result of the purchase of computers and equipment and additional building improvements. Other Operating Expenses increased (\$36,271) due to mortgage debt service and insurance premiums.

Capital Assets

As of June 30, 2005 the School had \$1,127,600 invested in computers and office equipment, furniture and equipment, building, building improvements and mortgage loan fees, net of depreciation. This is a \$39,727 decrease from June 30, 2004.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Capital Assets (net of depreciation)		
Computers and Office Equipment	\$ 10,691	\$ 29,316
Furniture and Equipment	12,361	14,080
Building & Mortgage Loan Fees	1,064,045	1,091,893
Building Improvements	<u>40,503</u>	<u>32,038</u>
Net Capital Assets	<u>\$1,127,600</u>	<u>\$1,167,327</u>

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

Debt Service

On November 12, 2003 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by US Bank National Association with a face value of \$825,000 for a term of fifteen years and an interest rate of 6.49% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to \$701,250. The second mortgage is held by First Federal Savings & Loan Association of Lakewood with a face value of \$270,000 for a term of seven years and an interest rate of 7.00% per annum. The outstanding principal balances as of June 30, 2005 are \$771,894 and \$219,922 respectively. For more information on debt service see the Notes to the Financial Statements.

WESTPARK COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Current Financial Issues

Westpark Community School opened in the fall of 2001. In its fourth year of operations it has grown from 72 students, eight teaching staff members and expenses of \$517,314 to a total of 218 students, 19 teaching staff members and expenses of \$1,510,983. During this time we have also been able to purchase our own educational facility. As the School matures to full enrollment we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to babb.thomas@constellationschools.com.

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**WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Net Assets
As of June 30, 2005**

Assets:

Current Assets:

Cash	\$541,831
Due from Other Governments	1,645
Accounts Receivable	500
	<hr/>
<i>Total Current Assets</i>	543,976

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	1,127,600
	<hr/>
<i>Total Assets</i>	<u>\$1,671,576</u>

Liabilities:

Current Liabilities:

Accounts Payable	\$21,092
Due Other Governments	1,678
Accrued Wages and Benefits	3,448
Interest Payable	5,244
Deferred Revenue	22,833
	<hr/>
<i>Total Current Liabilities</i>	<u>54,295</u>

Long Term Liabilities:

Mortgage Notes Payable	991,816
	<hr/>
<i>Total Liabilities</i>	<u>1,046,111</u>

Net Assets:

Investment in capital assets, net of related debt	135,784
Unrestricted	489,681
	<hr/>
<i>Total Net Assets</i>	<u>\$625,465</u>

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

**WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005**

Operating Revenues:

Foundation and DPIA Revenues	\$1,510,960
Other Operating Revenues	<u>50,870</u>
<i>Total Operating Revenues</i>	<u>1,561,830</u>

Operating Expenses:

Salaries	602,251
Fringe Benefits	167,824
Purchased Services	482,570
Materials and Supplies	94,205
Capital Outlay	2,646
Depreciation	58,350
Other Operating Expenses	<u>103,137</u>
<i>Total Operating Expenses</i>	<u>1,510,983</u>
Operating Income	<u>50,847</u>

Non-Operating Revenues:

Interest	3,560
Federal and State Grants	179,481
Private Grants and Contributions	<u>12,349</u>
<i>Total Non-Operating Revenues</i>	<u>195,390</u>
Net Income	<u>246,237</u>
Net Assets at Beginning of the Year	<u>379,228</u>
Net Assets at End of Year	<u><u>\$625,465</u></u>

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

**WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,562,873
Cash Payments to Suppliers for Goods and Services	(867,662)
Cash Payments to Employees for Services	(598,803)
Other Operating Revenues	<u>63,107</u>
Net Cash Provided by Operating Activities	<u>159,515</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	12,349
Federal and State Grants Received	<u>180,767</u>
Net Cash Provided by Noncapital Financing Activities	<u>193,116</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(18,624)
Mortgage Loan Payments	<u>(66,458)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(85,082)</u>

Cash Flows from Investing Activities:

Interest	<u>3,560</u>
Net Cash Provided by Investing Activities	<u>3,560</u>

Net Increase in Cash	271,109
Cash at Beginning of Year	<u>270,722</u>
Cash at End of Year	<u><u>\$541,831</u></u>

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

**WESTPARK COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
(Continued)**

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

Operating Income	\$50,847
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	58,350
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments - DPIA	51,913
(Decrease) in Accounts Payable	(12,422)
(Decrease) in Due Other Governments	(7,941)
Increase in Accrued Wages and Benefits	1,288
Increase in Interest Payable	5,244
Increase in Deferred Revenue	12,236

Total Adjustments	108,668
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Net Cash Provided by Operating Activities	\$159,515
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The accompanying notes to the financial statements are an integral part of this statement.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

I. Description of the School and Reporting Entity

Westpark Community School (WCS) is a nonprofit corporation established August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On November 7, 2001, WCS obtained 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 WCS' tax-exempt status. WCS, which is part of Ohio's education program, is independent of any school district. WCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCS.

WCS was approved for operation under a contract between the Governing Authority and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. On October 16, 2004 WCS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XIII for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

WCS operates under a five-member Board of Trustees. 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. WCS controls one instructional facility staffed by nineteen certificated full time teaching personnel who provide services to 218 students.

WCS entered into an agreement with CCS to provide management services for the fiscal year. See footnote XIII for additional information regarding the management company. The board members of WCS are also board members of CCS, Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies

The financial statements of WCS have been prepared in conformity with generally accepted accounting principles 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. WCS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of WCS' accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

For fiscal year 2005, WCS has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," GASB Statement No. 40, "Deposit and Investment Risk Disclosures," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit plans.

The implementation of GASB Statements Nos. 39, 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements for the school.

3. Cash

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

4. Budgetary Process

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

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

5. Due from Other Governments and Accounts Receivable

Moneys due WCS for the year ended June 30, 2005 are recorded as Due from Other Governments and Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.
is recorded at the time of the event causing the moneys to be due.

6. 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 \$500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Mortgage Fees have been capitalized at cost and are being amortized over the term of the mortgage for which they have been incurred.

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

Capital Asset Classification	Years
Computers and Office Equipment	3
Furniture, Equipment and Materials	10
Building	40
Building Improvements	10
Mortgage Loan Fees	15

7. Intergovernmental Revenues

WCS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA") and the Federal Lunch Reimbursement Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

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 2005 school year totaled \$1,690,441.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, WCS 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 amount of one hundred twenty days. WCS 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.

9. 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.

10. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2005, the carrying amount of WCS' deposits totaled \$541,831 and its bank balance was \$555,653. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, \$374,673 of the bank balance was exposed to custodial risk as discussed below, while \$180,980 was covered by the Federal Depository Insurance Corporation.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

III. Deposits (Continued)

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

IV. Capital Assets

A summary of capital assets at June 30, 2005 follows:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/05</u>
Capital Assets Being Depreciated:				
Building	\$1,108,138	\$0	\$0	\$1,108,138
Building Improvements	34,950	12,643	0	47,593
Computers/Office Equipment	69,103	5,980	0	75,083
Furniture, Equipment & Materials	<u>16,505</u>	<u>0</u>	<u>0</u>	<u>16,505</u>
Total Capital Assets Being Depreciated:	<u>1,228,696</u>	<u>18,623</u>	<u>0</u>	<u>1,247,319</u>
Less Accumulated Depreciation:				
Building	(16,245)	(27,848)	0	(44,093)
Building Improvements	(2,912)	(4,178)	0	(7,090)
Computers & Office Equip	(39,787)	(24,605)	0	(64,392)
Furniture, Equipment & Materials	<u>(2,425)</u>	<u>(1,719)</u>	<u>0</u>	<u>(4,144)</u>
Total Accumulated Depreciation:	<u>(61,369)</u>	<u>(58,350)</u>	<u>0</u>	<u>(119,719)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$1,167,327</u>	<u>\$(39,727)</u>	<u>\$0</u>	<u>\$1,127,600</u>

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

V. Purchased Services

Purchased Services include the following:

Instruction	\$44,566
Pupil Support Services	59,987
Staff Development & Support	24,289
Administrative	212,709
Occupancy Costs	104,005
Food Services	<u>37,014</u>
Total	<u>\$482,570</u>

VI. Washington School Purchase

On November 12, 2003, WCS purchased the former Washington School building it occupied at 16210 Lorain Avenue, Cleveland. The purchase price of \$1,100,000, along with other purchase costs totaling \$4,674, have been capitalized and will be depreciated over a forty year period. All operations of the school are located at this site.

VII. Mortgage Notes Payable

On November 6, 2003, WCS entered into two mortgage agreements relating to the purchase of the property at 16210 Lorain Avenue (see note VI).

A first mortgage note in the amount of \$825,000 is held by US Bank National Association (US Bank). The note is for a term of fifteen years with an interest rate of 6.49 percent per annum. The Ohio School Facilities Commission has guaranteed the first mortgage up to \$701,250.

A second mortgage note in the amount of \$270,000 is held by First Federal Savings & Loan Association of Lakewood (First Federal) and is subordinate to the first mortgage. The note is for a term of seven years with an interest rate of 7.00 percent per annum.

During fiscal year 2005 principal was reduced by \$34,189 for US Bank and \$32,269 for First Federal. Interest expense totaled \$52,538 for US Bank and \$16,425 for First Federal. As of June 30, 2005 outstanding principal balances are \$771,894 for the first mortgage and \$219,922 for the second mortgage. Interest payable totaling \$4,175 due US Bank and \$1,069 due First Federal has been recorded as a current liability as of June 30, 2005.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

VII. Mortgage Notes Payable (Continued)

Principal payments due on the mortgage notes are as follows:

Year	US Bank	First Federal
2006	36,473	34,602
2007	38,947	37,103
2008	41,466	39,785
2009	44,401	42,662
2010	47,412	45,746
After 2010	<u>563,195</u>	<u>20,024</u>
Total	<u>\$771,894</u>	<u>\$219,922</u>

VIII. Risk Management

1. Property and Liability Insurance

WCS 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 2005, WCS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$2,000,000 single occurrence limit and \$4,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

WCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2005 there have been no claims filed by WCS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Life Benefits

WCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. During the current fiscal year the cost to WCS for medical insurance benefits was \$64,167.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

IX. Defined Benefit Pension Plans

1. School Employees Retirement System

WCS contributes to the School Employees Retirement System of Ohio (“SERS”), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and WCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of WCS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. WCS’ required contribution to SERS for the fiscal year ended June 30, 2005, 2004 and 2003 was \$3,979, \$3,445 and \$2,960. For fiscal year 2005, 2004 and 2003 all required contributions were paid.

2. State Teachers Retirement System

WCS contributes to the State Teachers Retirement System of Ohio (“STRS”), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

IX. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and WCS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

IX. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

WCS' required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004 and 2003 was \$71,962, \$56,869 and \$38,414. For fiscal year 2005, WCS contributions totaling \$622 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

X. Post-Employment Benefits

WCS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For WCS, this amount equaled \$5,536 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

X. Post-Employment Benefits (Continued)

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For WCS, the amount to fund health care benefits, including surcharge, equaled \$3,478 for fiscal 2005.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million dollars. At June 30, 2004, SERS had net assets available for health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits

XI. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

WCS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

XII. Contingencies

1. Grants

WCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of WCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCS at June 30, 2005.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on WCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2005.

WESTPARK COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

XIII. Sponsorship and Management Agreement

WCS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2004. Sponsorship fees are calculated as 1% of state funds received by ECS, from the State of Ohio. The total amount due from WCS for fiscal year 2005 was \$15,119 all of which was paid prior to June 30, 2005.

WCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2005. The agreement was for a period of one year, effective July 1, 2004. Management fees are calculated as 11% of the 2004/2005 Foundation payment received by WCS, as reported in the Monthly Community School Foundation Report. The total amount due from OBMS for the fiscal year ending June 30, 2005 was \$166,206 all of which was paid prior to June 30, 2005.

XIV. Related Parties

The members of the WCS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students governing boards. WCS contracts with CCS for legal, financial and business management services.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Westpark Community School
Cuyahoga County
16210 Lorain Road
Cleveland, Ohio 44111

We have audited the financial statements of the Westpark Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 23, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audit may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated December 23, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Westpark Community School
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 23, 2005



**Auditor of State
Betty Montgomery**

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WESTPARK COMMUNITY SCHOOL

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 12, 2006**