

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2008**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Constellation Schools: Westpark Community Elementary  
16210 Lorain Road  
Cleveland, Ohio 44111

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Westpark Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. 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: Westpark Community Elementary is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 10, 2009

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**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b><u>TITLE</u></b>	<b><u>PAGE</u></b>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	9
Notes to the Basic Financial Statements	13
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by <i>Government Auditing Standards</i>	29

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 26, 2008

The Board of Trustees  
Constellation Schools: Westpark Community Elementary  
16210 Lorain Road  
Cleveland, Ohio 44111

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Constellation Schools: Westpark Community Elementary (the School), as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Constellation Schools: Westpark Community Elementary, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Constellation Schools: Westpark Community Elementary  
Independent Auditor's Report  
Page 2

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hea & Associates, Inc.*



# **CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**

## **Management's Discussion and Analysis**

For the Year Ended June 30, 2008

Unaudited

The discussion and analysis of Constellation Schools: Westpark Community Elementary (WCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the financial performance of WCE 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 WCE.

### **Financial Highlights**

Key financial highlights for 2008 include the following:

- In total, net assets increased \$370,159, which represents a 28.2% increase from 2007. This increase is due primarily to increased enrollment and increased operating efficiencies.
- Total assets increased \$6,066,365, which represents more than a 276.2% increase from 2007. This is due to the deposit of funds from bond financing proceeds into escrow accounts and increased capital assets from construction and financing fees.
- Liabilities increased \$5,696,206, which represents a 644.6% increase from 2007. This is entirely from bond refinancing of the land and building occupied by OBCE and the financing of an additional building plus renovation costs.
- Operating revenues increased by \$371,346, which represents a 20.5% increase from 2007. This is a direct result of an additional enrollment and rent income from the middle school.
- Expenses increased by \$271,146 which represents a 14.4% increase from 2007. Operating expense increases are due to expenditures incurred for the increased enrollment and additional debt service from the refinance.
- Non-operating revenues increased by \$2,593, which represents a 0.8% increase from 2007. This increase is due to increased interest earnings.

### **Using this Financial Report**

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

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

### Statement of Net Assets

The Statement of Net Assets looks at how well WCE has performed financially through June 30, 2008. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Assets for fiscal years ended June 30, 2008 and 2007 for WCE.

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash	\$1,384,143	\$ 888,250
Other Current Assets	2,395,760	23,204
Non-Current Assets	1,473,856	0
Capital Assets	<u>3,009,322</u>	<u>1,285,262</u>
Total Assets	<u>8,263,081</u>	<u>2,196,716</u>
<b>Liabilities</b>		
Current Liabilities	314,841	38,999
Long-Term Liabilities	<u>6,265,000</u>	<u>844,636</u>
Total Liabilities	<u>6,579,841</u>	<u>883,635</u>
<b>Net Assets</b>		
Investments in capital assets net of related debt	381,421	440,626
Temporarily Restricted assets net of related debt	224,373	0
Unrestricted	<u>1,077,446</u>	<u>872,455</u>
Net Assets	<u>\$1,683,240</u>	<u>\$1,313,081</u>

Net Assets increased \$370,159, due primarily to increased enrollment and improved operating efficiencies. For assets, cash increased \$495,893; bond escrow accounts increased \$2,387,616; due from other governments decreased \$14,026; accounts receivable decreased \$944, prepaid employee withholding decreased \$90; bond reserve accounts increased \$960,423; deferred charges increased \$513,433 and net capital assets increased \$1,724,060 from 2007. For liabilities, accounts payable increased \$57,732; accrued wages and benefits increased \$7,966; interest payable increased \$213,064; deferred revenues decreased \$2,920; mortgage notes payable decreased \$844,636 and bonds payable increased \$6,265,000 from 2007.

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

### 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, 2008.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for WCE for fiscal years ended June 30, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
Foundation and Poverty Based Assistance Revenues	\$1,881,704	\$1,635,990
Other Operating Revenues	<u>304,635</u>	<u>179,003</u>
Operating Revenues	<u>2,186,339</u>	<u>1,814,993</u>
Interest	52,763	29,122
Federal and State Grants	287,575	269,508
Private Grants and Contributions	<u>1,000</u>	<u>40,115</u>
Non-Operating Revenues	<u>341,338</u>	<u>338,745</u>
Total Revenues	<u>2,527,677</u>	<u>2,153,738</u>
<b>Expenses</b>		
Salaries	829,312	743,111
Fringe Benefits	221,867	185,592
Purchased Services	664,469	610,329
Materials and Supplies	98,966	165,410
Capital Outlay	16,449	8,236
Depreciation and Amortization	73,026	59,067
Other Operating Expenses	<u>253,429</u>	<u>114,627</u>
Total Expenses	<u>2,157,518</u>	<u>1,886,372</u>
<b>Net Income/(Loss)</b>	370,159	267,366
Net Assets at Beginning of Year	<u>1,313,081</u>	<u>1,045,715</u>
<b>Net Assets at End of Year</b>	<u>\$1,683,240</u>	<u>\$1,313,081</u>

Net Assets increased in both fiscal years ending June 30, 2007 and 2008. This is due to increased operating efficiencies for both years. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

The most significant increases in revenues from 2007 to 2008 are Foundation and Poverty Based Assistance funds which increased \$245,714 due to enrollment increases and increases in formula amounts. Federal and State Grants also increased \$18,067 due to increased title allocations. Increases in interest income and increases in other income account for most of the remaining increases.

Most categories of expense increased from 2007 to 2008. Salaries and Fringe Benefits increased \$122,476 due to hiring additional staff and annual increases. Purchased services increased \$54,140 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$66,444 due to prior years purchases of text books and classroom supplies for classroom expansion. Capital Outlay increased \$8,213 due to purchasing furniture and equipment for classroom expansion. Depreciation and amortization increased \$13,959 as a direct result of additional purchases of furniture, equipment, building improvements, bond fees and building acquisition. Other Operating Expenses increased \$138,802 due to bond issue debt service.

### Capital Assets

As of June 30, 2008, WCE had \$3,009,322 invested in computers and office equipment, furniture and equipment, land, building, construction in progress and bond finance fees, and building improvements, net of depreciation. This is a \$1,724,060 increase over June 30, 2007.

The following schedule provides a summary of Fixed Assets as of June 30, 2008 and 2007 for WCE.

	<u>2008</u>	<u>2007</u>
<b>Capital Assets (net of depreciation)</b>		
Land	\$ 322,900	\$ 322,900
Construction in Progress	1,869,432	0
Building	692,198	714,377
Building Improvements	102,400	212,681
Computers and Office Equipment	13,334	24,534
Furniture, Equipment & Materials	<u>9,058</u>	<u>10,770</u>
Net Fixed Assets	<u>\$3,009,322</u>	<u>\$1,285,262</u>

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

## **CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

### **Debt Service**

On November 12, 2003 the School purchased the land and 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.

On January 23, 2008, WCE refinanced the land and building in which it operates. Additional funds were borrowed to facilitate construction of an addition to meet enrollment demand for the school. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the property occupied by WCE. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2008 is \$6,265,000.

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

### **Current Financial Issues**

Constellation Schools: Westpark Community Elementary opened in the fall of 2001. In its seventh year of operations it has grown from 72 students, eight teaching staff members and expenses of \$517,314 to a total of 258 students, 27 teaching staff members and expenses of \$2,157,518. On January 2, 2006, grades 5 through 8 were split off from WCE to form Westpark Community Middle School. This is providing more flexibility in the curriculum for each student. During this time we purchased our own educational facility and are currently in the process of constructing an addition to accommodate increasing enrollment and allow both schools to cohabit the same property. As the School continues to mature 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 our first seven years.

### **Contacting the School's Financial Management**

This financial report is designed to provide our constituents with a general overview of the finances for WCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer, by mail at Constellation Schools, 5983 West 54<sup>th</sup> Street, Parma, Ohio 44129; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 440.845.7688; or by faxing 440.845.7689.

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**Constellation Schools: Westpark Community Elementary  
Cuyahoga County  
Statement of Net Assets  
As of June 30, 2008**

**Assets:**

**Current Assets:**

Cash	\$1,384,143
Escrow Accounts	2,387,616
Due from Other Governments	8,064
Accounts Receivable	80
<i>Total Current Assets</i>	<u>3,779,903</u>

**Non-Current Assets:**

Bond Reserve Accounts	960,423
Deferred Charges	513,433
Capital Assets (Net of Accumulated Depreciation)	<u>3,009,322</u>
<i>Total Non-Current Assets</i>	<u>4,483,178</u>
<i>Total Assets</i>	<u>8,263,081</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	72,762
Interest Payable	216,923
Accrued Wages and Benefits	7,966
Deferred Revenue	17,190
<i>Total Current Liabilities</i>	<u>314,841</u>

**Long Term Liabilities:**

Bond Notes Payable	<u>6,265,000</u>
<i>Total Liabilities</i>	<u>6,579,841</u>

**Net Assets:**

Investment in capital assets, net of related debt	381,421
Temporarily Restricted assets, net of related debt	224,373
Unrestricted	<u>1,077,446</u>
<i>Total Net Assets</i>	<u>\$1,683,240</u>

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

**Constellation Schools: Westpark Community Elementary  
Cuyahoga County  
Statement of Revenues, Expenses and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2008**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$1,881,704
Other Operating Revenues	<u>304,635</u>
<i>Total Operating Revenues</i>	<u>2,186,339</u>

**Operating Expenses:**

Salaries	829,312
Fringe Benefits	221,867
Purchased Services	664,469
Materials and Supplies	98,966
Capital Outlay	16,449
Depreciation and Amortization	73,026
Other Operating Expenses	<u>32,096</u>
<i>Total Operating Expenses</i>	<u>1,936,185</u>

Operating Income	<u>250,154</u>
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**Non-Operating Revenues & Expenses:**

Interest Income	52,763
Interest Expense	(221,333)
Federal and State Grants	287,575
Private Grants and Contributions	<u>1,000</u>
<i>Total Non-Operating Revenues &amp; Expenses</i>	<u>120,005</u>

Net Income	<u>370,159</u>
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Net Assets at Beginning of the Year	<u>1,313,081</u>
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Net Assets at End of Year	<u><u>\$1,683,240</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.



**Constellation Schools: Westpark Community Elementary  
Cuyahoga County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$1,881,704
Cash Payments to Suppliers for Goods and Services	(975,049)
Cash Payments to Employees for Services	(814,933)
Other Operating Revenues	302,659
Net Cash Provided by Operating Activities	<u>394,381</u>

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions Received	1,000
Federal and State Grants Received	294,211
Net Cash Provided by Noncapital Financing Activities	<u>295,211</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	(1,797,085)
Payments for Deferred Charges	(513,433)
Bond Issue Proceeds	6,265,000
Bond Interest Credit Proceeds	26,512
Increase in Escrow Funds	(3,348,039)
Mortgage Interest Payments	(34,781)
Mortgage Loan Payments	(844,636)
Net Cash Used for Capital and Related Financing Activities	<u>(246,462)</u>

**Cash Flows from Investing Activities:**

Interest	52,763
Net Cash Provided by Investing Activities	<u>52,763</u>

Net Decrease in Cash	495,893
Cash at Beginning of Year	<u>888,250</u>

Cash at End of Year	<u><u>\$1,384,143</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Westpark Community Elementary**  
**Cuyahoga County**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2008**  
**(Continued)**

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

Operating Income	\$250,154
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**Adjustments to Reconcile Operating Income to**  
**Net Cash Provided by Operating Activities:**

Depreciation	73,026
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments	7,389
Decrease in Accounts Receivable	944
Decrease in Prepaid Employee Withholding	90
Increase in Accounts Payable	57,732
Increase in Accrued Wages and Benefits	7,966
(Decrease) in Deferred Revenue	(2,920)

Total Adjustments	144,227
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Net Cash Provided by Operating Activities	\$394,381
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The accompanying notes to the financial statements are an integral part of this statement.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**I. Description of the School and Reporting Entity**

**Constellation Schools: Westpark Community Elementary (WCE)** is a nonprofit corporation established August 25, 2000 as Westpark Community School (WCS) 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 August 31, 2001, WCE 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 WCE. WCE, which is part of Ohio's education program, is independent of any school district. WCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCE.

WCE (as WCS) was approved for operation under a contract between the Governing Authority of Constellation Schools: Westpark Community Elementary 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, 2003 WCE (as WCS) entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC was subsequently renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XIV for further discussion of the sponsor services. WCE entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XIV for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Westpark Community Elementary.

WCE 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 WCE's instructional facility staffed by twenty-seven certificated full time teaching personnel who provided services to 258 students. During 2008, the board members for WCE also serve as the board for Constellation Schools: Westpark Community Middle.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**II. Summary of Significant Accounting Policies**

The financial statements of WCE 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. WCE 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 WCE's accounting policies are described below.

**1. Basis of Presentation**

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

**2. Measurement Focus and Basis of Accounting**

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. WCE 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 WCE 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 WCE must provide local resources to be used

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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for a specified purpose; and expenditure requirements, in which resources are provided to WCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Cash**

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

**4. Budgetary Process**

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

**5. Due From Other Governments and Accounts Receivable**

Monies due WCE for the year ended June 30, 2008 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.

**6. Capital Assets, Mortgage Fees and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Mortgage Fees have been capitalized at cost and are being amortized over the term of the financing for which they have been incurred. Bank mortgage financing was replaced by bond financing during the year.

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

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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<b>Capital Asset Classification</b>	<b>Years</b>
Building	40
Building Improvements	10 to 40
Mortgage Loan Fees	15
Computers and Office Equipment	3
Furniture and Equipment	10

**7. Intergovernmental Revenues**

WCE 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. WCE 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 2008 school year totaled \$2,169,279.

**8. Private Grants and Contributions**

WCE received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2008 school year totaled \$1,000.

**9. Compensated Absences**

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

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**10. Use of Estimates**

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

**11. Deferred Revenue**

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

**12. Deferred Charges**

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

**III. Deposits**

At fiscal year end June 30, 2008, the carrying amount of WCE's deposits totaled \$1,384,143 and its bank balance was \$1,399,277. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, \$1,299,277 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

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

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**IV. Capital Assets**

A summary of capital assets at June 30, 2008 follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Not Being Depreciated:				
Land	\$ 322,900	\$ 0	\$ 0	\$ 322,900
Construction in Progress	<u>0</u>	<u>1,869,432</u>	<u>0</u>	<u>1,869,432</u>
Total Capital Assets Not Being Depreciated	<u>322,900</u>	<u>1,869,432</u>	<u>0</u>	<u>2,192,332</u>
Capital Assets Being Depreciated:				
Building	785,238	0	(3,463)	781,775
Building Improvements	251,080	652,361	(731,779)	171,662
Computers/Office Equipment	110,954	876	0	111,830
Furniture and Equipment	<u>18,250</u>	<u>0</u>	<u>0</u>	<u>18,250</u>
Total Capital Assets Being Depreciated:	<u>1,165,522</u>	<u>653,237</u>	<u>(735,242)</u>	<u>1,083,517</u>
Less Accumulated Depreciation:				
Building	(70,861)	(19,673)	957	(89,577)
Building Improvements	(38,399)	(30,863)	0	(69,262)
Computers/Office Equipment	(86,420)	(12,076)	0	(98,496)
Furniture and Equipment	<u>(7,480)</u>	<u>(1,712)</u>	<u>0</u>	<u>(9,192)</u>
Total Accumulated Depreciation:	<u>(203,160)</u>	<u>(64,324)</u>	<u>957</u>	<u>(266,527)</u>
Total Capital Assets Being Depreciated, Net	<u>962,362</u>	<u>588,913</u>	<u>(734,285)</u>	<u>816,990</u>
Total Capital Assets Net	<u>\$1,285,262</u>	<u>\$2,458,345</u>	<u>\$(734,285)</u>	<u>\$3,009,322</u>



**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**V. Purchased Services**

Purchased Services include the following:

Instruction	\$63,286
Pupil Support Services	102,671
Staff Development & Support	16,793
Administrative	277,246
Occupancy Costs	128,601
Food Services	<u>75,872</u>
Total	<u>\$664,469</u>

**VI. Washington School Purchase**

On November 12, 2003, WCE 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. Loan fees totaling \$3,463, had been capitalized to be depreciated over a fifteen year period. All operations of the school are located at this site.

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

**VII. Mortgage Notes Payable**

On November 6, 2003, WCE 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 was held by US Bank National Association (US Bank). The note was for a term of fifteen years with an interest rate of 6.49 percent per annum. The Ohio School Facilities Commission had guaranteed the first mortgage up to \$701,250. A second mortgage note in the amount of \$270,000 was held by First Federal Savings & Loan Association of Lakewood (First Federal) and was subordinate to the first mortgage. The note was for a term of seven years with an interest rate of 7.00 percent per annum.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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During fiscal year 2008 principal was reduced by \$696,420 for US Bank and \$148,216 for by First Federal. Interest expense totaled \$25,380 for US Bank and \$5,541 for by First Federal. In January 2008 the balances remaining for the US Bank National loan and the First Federal loan were paid off as part of a refinance of the building. All mortgages and guarantees relating to the original financing have subsequently been released.

**VIII. Capital Leases**

On January 23, 2008 WCE closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the property owned by WCE for the remaining mortgage balance carried by WCE at the time. In addition IDA is financing a multi-million dollar building expansion to meet increasing demand for enrollment. The property is leased back to WCE through annual lease renewals through January 2038. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2008 is \$6,265,000 and interest payable due July 1, 2008 is \$216,923. Interest expense, net of a \$26,512 accrued interest issuance credit, during 2008 totaled \$190,411.

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction in Progress totaling \$1,869,432 as of June 30, 2008 is recognized as a non-depreciable asset. Issuance costs, finance fees and underwriters discount totaling \$522,135 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2008 was \$8,702. The Bond Indenture requires WCE to meet certain covenants. As of June 30, 2008 WCE is in compliance with those covenants.

As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee. Payments for construction and financing activities have been paid from these accounts through June 30, 2008. Lease payments were made by WCE to cover bond interest and administrative fees due in July 2008 and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term. Lease payments made during 2008 to fund interest, reserves and bond expenses totaled \$173,477. The balances of escrow and reserve accounts as of June 30, 2008 are as follows:

Project Fund	\$1,957,337
Bond Fund	420,667
Expense Fund	<u>9,612</u>
Total Bond Escrow Accounts	<u>\$2,387,616</u>
Reserve Fund	\$ 629,517
Supplemental Reserve	15,798
Operating Reserve	<u>315,108</u>
Total Bond Reserve Accounts	<u>\$ 960,423</u>

The assets refinanced and acquired through the capital lease as of June 30, 2008 are as follows:

Land	\$ 322,900
Building	781,775
Building Improvements	171,662
Bond Finance Fees	522,135
Construction in Progress	<u>1,869,432</u>
Sub-Total	3,667,904
Less Accumulated Depreciation	<u>(167,541)</u>
Net Book Value	<u>\$3,500,363</u>

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

Year	Principal	Interest	Total
2009	\$ -0-	\$ 433,846	\$ 433,846
2010	-0-	433,845	433,845
2011	-0-	433,846	433,846
2012	75,144	433,845	508,989
2013	80,239	429,055	509,294
2014-2018	481,433	2,061,970	2,543,403
2019-2023	662,289	1,882,482	2,544,771
2024-2028	927,205	1,616,992	2,544,197
2029-2033	1,301,653	1,243,613	2,545,266
2034-2038	<u>2,737,037</u>	<u>720,010</u>	<u>3,457,047</u>
Total	<u>\$6,265,000</u>	<u>\$ 9,689,504</u>	<u>\$15,954,504</u>

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**IX. Sub Lease**

WCE sub-leases space to Constellation Schools: Westpark Community Middle (WCM). Under the terms of the sub-lease WCM made monthly lease payments of \$5,000 from July 2007 through January, 2008. Effective with the sale of the property to IDA (see Note VI), the lease was amended to a monthly rate of \$10,960. WCE charged a total of \$89,800 from WCM during the year. As of June 30, 2008, all of the rent due from WCM was paid.

**X. Risk Management**

**1. Property and Liability Insurance**

WCE 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 2008, WCE contracted with Indiana Insurance Company for all of its insurance.

General property and liability is covered at \$10,000,000 single occurrence limit and \$11,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

**2. Workers' Compensation**

WCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by WCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2008. The total payments made for these claims have been \$970. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of WCE as June 30, 2008.

**3. Employee Medical, Dental, and Life Benefits**

WCE provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by WCE for the fiscal year is \$86,022.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**XI. Defined Benefit Pension Plans**

**1. State Teachers Retirement System**

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

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members' lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. A member is eligible to receive a retirement

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the member's account balance.

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

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

For the fiscal year ended June 30, 2008, members were required to contribute 10% of their annual covered salary and WCE was required to contribute 14%. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14% contributed by WCE, 13% was the portion used to fund pension obligations.

WCE's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were \$98,813, \$89,744 and \$84,263, respectively; 99.09% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$897 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**2. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and WCE is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. WCE's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$9,690, \$7,388, and \$7,182, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

**XII. Post-Employment Benefits Other than Pension Benefits**

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. For the fiscal years ended June 30, 2008, 2007 and 2006 WCE's contributions to post-employment health care were \$7,601, \$6,903 and \$6,481, respectively; 99.09% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$69 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**

**- A Community School -  
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

---

SERS administers two post-employment benefit plans, the Medicare Part B Plan and the Health Care Plan as permitted by Ohio Revised Code Sections 3309.69 and 3309.375. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees. The Health Care Plan provides health care and prescription drug plans administered by two third-party administrators. The Retirement Board establishes rules for premiums paid by retirees for health care coverage and varies depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The Medicare Part B premium reimbursement plan reimburses eligible retirees for the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2007 (most recent information available) was \$93.50. SERS' reimbursement to retirees was \$45.50. The Retirement Board, with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2007 (most recent information available) the actuarially required allocation was .68%. For the fiscal years ended June 30, 2008, 2007 and 2006 WCE's contributions to Medicare Part B were \$471, \$359 and \$349, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

The Health Care Plan is funded through employer contributions. Each year after allocations for required benefits the Retirement Board allocates the remainder of the employers' 14% contribution. At June 30, 2007 (the most recent information available) the health care allocation was 3.32%. The actuarially required contribution (ARC), as of December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

For fiscal years ended June 30, 2008, 2007 and 2006 WCE contributions to the Health Care Plan, including the surcharge were \$3,342, \$2,549 and \$2,527, respectively; 68.76% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$1,044 representing the unpaid surcharge due for fiscal year 2008 is recorded as a liability within the respective funds.



**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**XIII. Contingencies**

**1. Grants**

WCE 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 WCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCE at June 30, 2008.

**2. Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report adjustments to the state funding received during fiscal year 2008 are reflected in the financial statements.

**XIV. Sponsorship and Management Agreements**

WCE 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, 2003. Sponsorship fees are calculated as 1.5% of the Fiscal Year 2008 Foundation payments received by WCE, from the State of Ohio. The total amount due from WCE for fiscal year 2008 was \$28,086, all of which was paid prior to June 30, 2008.

WCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2008. The agreement was for a period of one year, effective July 1, 2007. Management fees are calculated as 5.5% of the Fiscal Year 2008 Foundation payment received by WCE from the State of Ohio plus a fixed fee of \$125,000. The total amount due from WCE for the fiscal year ending June 30, 2008 was \$228,542 all of which was paid prior to June 30, 2008.

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- A Community School -**  
**Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**XV. Temporarily Restricted Assets, Net of Related Debt**

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

**XVI. Construction Commitments**

The following construction commitments at June 30, 2008 will be financed with capital lease proceeds:

<u>Project</u>	<u>Total Authorized Cost</u>	<u>Expended to June 30, 2008</u>	<u>Balance at June 30, 2008</u>
George Washington Building Expansion	\$3,350,000	\$1,602,315	\$1,747,685



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 26, 2008

To the Board of Trustees  
Constellation Schools: Westpark Community Elementary  
4400 West 140<sup>th</sup> Street  
Cleveland, OH 44135

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

We have audited the financial statements of Constellation Schools: Westpark Community Elementary as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Constellation Schools: Westpark Community Elementary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Constellation Schools: Westpark Community Elementary in a separate letter dated November 26, 2008.

Compliance and Other Matters

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

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

*Rea & Associates, Inc.*



**Mary Taylor, CPA**  
Auditor of State

**CONSTELLATION SCHOOLS: WESTPARK 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  
APRIL 16, 2009**