

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS  
CUYAHOGA COUNTY, OHIO**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2009**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Constellation Schools: Westside Community School of the Arts  
5983 West 54th Street  
Parma, Ohio 44129

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Westside Community School of the Arts, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2008 through June 30, 2009. 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: Westside Community School of the Arts is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 21, 2009

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**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS  
CUYAHOGA COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 25, 2009

The Board of Trustees  
Constellation Schools: Westside Community School of the Arts  
3326 Broadview Road  
Cleveland, Ohio 44109

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Constellation Schools: Westside Community School of the Arts (the School), as of and for the year ended June 30, 2009, 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: Westside Community School of the Arts, as of June 30, 2009, 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 25, 2009 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.

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: WESTSIDE COMMUNITY SCHOOL OF THE ARTS**

## **Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009**

The discussion and analysis of Constellation Schools: Westside Community School of the Arts (WCSA) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the financial performance of WCSA 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 WCSA.

### **Financial Highlights**

Key financial highlights for 2009 include the following:

- The school began operations on August 2007 by enrolling grades kindergarten through 3. Enrollment for the first year was 84 students and increased to 100 for the 2009 school year. Enrollment increases are projected as the schools adds upper grades each year.
- In total, net assets increased \$230,977, which represents a 469.2% increase from 2008. This increase is due to the school receiving a \$250,000 foundation grant and federal Public Charter School Program grant funds which were used to purchase capitalized equipment and which were not fully expended during the year.
- Total assets increased \$263,329, which represents a 217.4% increase from 2008. This is from a combination of increased cash, capital assets and federal grants receivable.
- Liabilities increased by \$32,352, which represents a 45.0% increase from 2008. All of this increase occurred in vendor accounts payable and is due to grant purchases for curriculum to be used in the 2010 fiscal year.
- Operating revenues increased by \$167,327, which represents a 24.1% increase from 2008. This is a direct result of increased enrollment.
- Expenses increased by \$400,047 which represents a 46.4% increase from 2008. Expense increases are due to increasing the educational services to accommodate the increased enrollment as well as increases in other support functions..
- Non-operating revenues increased by \$453,576, which represents a 190.1% increase from 2008. This is due to receipt of \$250,000 foundation grant, an additional \$65,000 from the federal Public Charter School Program grants and increased federal allocations for supplemental grant services (Title I, IDEA, etc.)

### **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: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

## Statement of Net Assets

The Statement of Net Assets looks at how well WCSA has performed financially through June 30, 2009. 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, 2009 and 2008 for WCSA.

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash	\$128,640	\$8,128
Other Current Assets	67,351	28,539
Capital Assets	<u>188,455</u>	<u>84,450</u>
Total Assets	<u>384,446</u>	<u>121,117</u>
<b>Liabilities</b>		
Current Liabilities	104,244	54,092
Long-Term Liabilities	<u>0</u>	<u>17,800</u>
Total Liabilities	<u>104,244</u>	<u>71,892</u>
<b>Net Assets</b>		
Investment in capital assets	188,455	48,650
Unrestricted	<u>91,747</u>	<u>575</u>
Total Net Assets	<u>\$280,202</u>	<u>\$49,225</u>

Net Assets increased \$230,977, because the school received a \$250,000 foundation grant which has been used to purchase capitalized equipment and due to receiving federal start-up grant funds. For assets, cash increased \$120,512; due from other governments increased \$36,462; accounts receivable increased \$2,350, and net capital assets increased \$104,005 from 2008. For liabilities, accounts payable increased \$71,449; accrued wages and benefits decreased \$2,251, deferred revenues decreased \$1,046 and leasehold improvements payable decreased \$35,800 from 2008.

# CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

## 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, 2009.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for WCSA for fiscal years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
<b>Revenues</b>		
Foundation and Poverty Based Assistance Revenues	\$818,538	\$573,901
Other Operating Revenues	42,376	119,686
Total Operating Revenues	<u>860,914</u>	<u>693,587</u>
Interest Income	656	31
Federal and State Grants	381,847	217,692
Abandoned Leasehold Improvements	39,104	0
Private Grants and Contributions	250,000	308
Total Non-Operating Revenues	<u>671,607</u>	<u>218,031</u>
Total Revenues	<u>1,532,521</u>	<u>911,618</u>
<b>Expenses</b>		
Salaries	452,354	311,716
Fringe Benefits	122,739	77,877
Purchased Services	367,857	286,112
Materials and Supplies	208,309	113,556
Capital Outlay	59,095	28,924
Depreciation and Amortization	24,452	31,211
Other Operating Expenses	66,738	12,997
Total Expenses	<u>1,301,544</u>	<u>862,393</u>
Net Income/(Loss)	<u>230,977</u>	<u>49,225</u>
Net Assets at Beginning of the Year	<u>49,225</u>	<u>0</u>
Net Assets at End of Year	<u><u>\$280,202</u></u>	<u><u>\$49,225</u></u>

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

Net Assets increased in both fiscal years ended June 30, 2009 and 2008. This is due to the school opening up close to full enrollment and the receipt of federal Public Charter School Program grants in both years plus the receipt of a \$250,000 foundation grant in 2009. 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.

Revenues increased by \$581,799 from 2008 to 2009. One of the most significant items is a \$244,637 increase in the Foundation and Poverty Based Assistance funds from the state of Ohio due to increased enrollment. Other revenues increased \$414,472 because of a \$250,000 foundation grant and because of additional federal grant funding for the school.

Expenses increased from 2008 to 2009 by \$400,047. Salaries and Fringe Benefits increased \$185,500 due to staff increases and annual salary increases. Purchased services increased \$81,745 due to increased pupil support services, administrative services, food services and occupancy costs. Materials and Supplies increased \$94,753 and Capital Outlay increased \$30,171 due to purchases of text books, instructional supplies furniture and equipment for classroom expansion during 2009. Depreciation decreased \$6,759 as a result of abandoning leasehold improvements when the school moved to a new facility. Other Operating Expenses increased \$14,637 due to increased audit expenses and a one-time write off of leasehold improvements totaling a net loss of \$10,804.

**Capital Assets**

As of June 30, 2009, WCSA had \$188,455 invested in leasehold improvements, computers and office equipment, furniture and equipment, and leasehold improvements, net of depreciation. This is a \$104,005 increase over June 30, 2008.

The following schedule provides a summary of Fixed Assets as of June 30, 2009 and 2008 for WCSA.

	<u>2009</u>	<u>2008</u>
<b>Capital Assets (net of depreciation)</b>		
Building Improvements	\$0	\$49,394
Computers and Technology	17,639	19,786
Furniture and Equipment	<u>170,816</u>	<u>15,270</u>
Net Capital Assets	<u>\$188,455</u>	<u>\$84,450</u>

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

## **CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

### **Current Financial Issues**

Constellation Schools: Westside Community School of the Arts opened in August 2007. It has increased from its initial year of operations it had eighty-four students, eleven teaching staff members and expenses of \$862,393 to one-hundred twelve students, fifteen teaching staff members and expenses of \$1,262,440. The school opened with grades kindergarten through 3. A fourth grade was added for 2009. Continued increases in enrollment are budgeted until the school reaches full enrollment. These increases in enrollment will allow the school to maintain and grow a positive net asset balance as it matures.

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

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

This financial report is designed to provide our constituents with a general overview of the finances for WCSA 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 440.845.4200; or by faxing 440.845.4201.

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**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County  
Statement of Net Assets  
As of June 30, 2009**

**Assets:**

**Current Assets:**

Cash	\$128,640
Due from Other Governments	64,462
Accounts Receivable	2,889
<i>Total Current Assets</i>	<u>195,991</u>

**Non-Current Assets:**

Capital Assets (Net of Accumulated Depreciation)	<u>188,455</u>
<i>Total Non-Current Assets</i>	<u>188,455</u>

<i>Total Assets</i>	<u>384,446</u>
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**Liabilities:**

**Current Liabilities:**

Accounts Payable	101,190
Deferred Revenue	<u>3,054</u>

<i>Total Liabilities</i>	<u>104,244</u>
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**Net Assets:**

Investment in capital assets	188,455
Unrestricted	<u>91,747</u>

<i>Total Net Assets</i>	<u><u>\$280,202</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County  
Statement of Revenues, Expenses and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2009**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$818,538
Other Operating Revenues	42,376

<i>Total Operating Revenues</i>	860,914
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**Operating Expenses:**

Salaries	452,354
Fringe Benefits	122,739
Purchased Services	367,857
Materials and Supplies	208,309
Capital Outlay	59,095
Depreciation	24,452
Other Operating Expenses	38,438

<i>Total Operating Expenses</i>	1,273,244
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Operating Loss	(412,330)
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**Non-Operating Revenues:**

Interest	656
Write Off Leasehold Improvements Payable	(28,300)
Abandoned Leasehold Improvements, net of Accumulated Depreciation	39,104
Federal and State Grants	381,847
Private Grants and Contributions	250,000

<i>Total Non-Operating Revenues</i>	643,307
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Net Income	230,977
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Net Assets at Beginning of the Year	49,225
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Net Assets at End of Year	\$280,202
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The accompanying notes to the financial statements are an integral part of this statement.



**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2009**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$818,538
Cash Payments to Suppliers for Goods and Services	(724,305)
Cash Payments to Employees for Services	(456,554)
Other Operating Revenues	40,245
	40,245
Net Cash Used for Operating Activities	(322,076)

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions Received	250,000
Federal and State Grants Received	345,386
	345,386
Net Cash Provided by Noncapital Financing Activities	595,386

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

Decrease in Leasehold Improvements Payable, net of forgiveness	(24,996)
Payments for Capital Acquisitions	(128,458)
	(128,458)
Net Cash Used for Capital and Related Financing Activities	(153,454)

**Cash Flows from Investing Activities:**

Interest	656
	656
Net Cash Provided by Investing Activities	656
Net Increase in Cash	120,512
Cash at Beginning of Year	8,128
	8,128
Cash at End of Year	\$128,640

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

**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2009  
(Continued)**

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

Operating Loss	(\$412,330)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation	24,452
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Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(2,350)
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Increase in Accounts Payable	71,449
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(Decrease) in Accrued Wages and Benefits	(2,251)
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(Decrease) in Deferred Revenue	(1,046)
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Total Adjustments	90,254
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Net Cash Used for Operating Activities	(\$322,076)
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The accompanying notes to the financial statements are an integral part of this statement.

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY  
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- A Community School -  
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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

**Constellation Schools: Westside Community School of the Arts (WCSA)**, originally Westside Community School of the Arts, is a nonprofit corporation established on January 25, 2007 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 April 23, 2009, WCSA was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of WCSA. WCSA, which is part of Ohio's education program, is independent of any school district. WCSA may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCSA.

WCSA was approved for operation under a contract dated February 15, 2007 between the Governing Authority of WCSA and Buckeye Community Hope Foundation (BCHF) (the Sponsor). Approval to operate as WCSA and to open a school in the fall of 2007 was made by BCHF on August 6, 2007. The contract was amended January 22, 2009 to extend the term of the original contract until June 30, 2010. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. WCSA entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XI for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Westside Community School of the Arts.

WCSA 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 WCSA instructional facility staffed by fifteen certificated full time teaching personnel who provided services to 112 students. During 2009, the board members for WCSA also serve as the board for Constellation Schools: Mansfield Visual & Performing Arts School

**II. Summary of Significant Accounting Policies**

The financial statements of WCSA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY  
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- A Community School -  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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standard setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. WCSA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. WCSA has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of WCSA'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. WCSA 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 WCSA 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 WCSA must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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provided to WCSA on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Cash**

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

**4. Budgetary Process**

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

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

Monies due WCSA for the year ended June 30, 2009 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 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.

All capital assets are depreciated. Depreciation of leasehold 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. Estimated useful lives are as follows:

<b>Capital Asset Classification</b>	<b>Years</b>
Leasehold Improvements	3
Computers and Technology	3
Furniture and Equipment	10

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**7. Intergovernmental Revenues**

WCSA 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. WCSA 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.

WCSA participated in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, PTCM was awarded \$350,000 in fiscal year 2009 to offset start-up costs of the School. During fiscal year 2009, \$215,034 from the award was received. The remaining \$134,966 was received in fiscal year 2010. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2009 school year totaled \$1,200,385.

**8. Private Grants and Contributions**

WCSA receives grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2009 school year totaled \$250,000.

**9. Compensated Absences**

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

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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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 WCSA consists of materials fees received in the current year which pertains to the next school year.

**III. Deposits**

At fiscal year end June 30, 2009, the carrying amount of WCSA' deposits totaled \$128,640 and its bank balance was \$149,153. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2009, none of the bank balance was exposed to custodial risk as discussed below, while \$149,153 was covered by the Federal Depository Insurance Corporation.

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

**IV. Operating Leases**

Effective July 1, 2007 WCSA assumed the lease on its facility from Constellation Schools (CS - management company – see note XI) which included a \$53,800 balance of leasehold improvements payable. The lease was month to month and leasehold improvements were paid down in \$1,500 monthly installments. The school moved to a new facility in December 2008 and the \$28,300 balance due for leasehold improvements payable was paid by CS. Total rents and leasehold improvements payable paid to Nunzio Marzana during the fiscal year totaled \$20,750 and \$7,500 respectively.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

In September, 2008 WCSA executed a lease to rent space at 10812 Adeline Road, Cleveland, Ohio from SS. Philip & James Parish. Under the terms of the lease WCSA began making monthly payments of \$2,973.33 in October, 2008. During the months of October and November work was performed on the facility by CS to prepare the space for use as classroom and office space. The school moved into the renovated space during November 2008. The total rent paid to SS. Philip & James Parish for the year was \$26,760 all of which had been paid as of June 30, 2009.

**V. Capital Assets**

A summary of capital assets at June 30, 2009 follows:

	Balance <u>6/30/08</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/09</u>
Capital Assets Being Depreciated				
Building Improvements	\$73,528	\$0	(\$73,528)	\$0
Computers and Technology	25,575	8,680	0	34,255
Furniture and Equipment	<u>16,558</u>	<u>158,881</u>	<u>0</u>	<u>175,439</u>
Total Capital Assets Being Depreciated	<u>115,661</u>	<u>167,561</u>	<u>(73,528)</u>	<u>209,694</u>
Less Accumulated Depreciation				
Building Improvements	(24,134)	(10,290)	34,424	0
Computers and Technology	(5,789)	(10,827)	0	(16,616)
Furniture and Equipment	<u>(1,288)</u>	<u>(3,335)</u>	<u>0</u>	<u>(4,623)</u>
Total Accumulated Depreciation	<u>(31,211)</u>	<u>(24,452)</u>	<u>34,424</u>	<u>(21,239)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$84,450</u>	<u>\$143,109</u>	<u>(\$39,104)</u>	<u>\$188,455</u>



**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY  
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**VI. Purchased Services**

Purchased Services include the following:

Instruction	\$45,253
Pupil Support Services	34,216
Staff Development & Support	11,349
Administrative	147,473
Occupancy Costs	100,016
Food Services	<u>29,550</u>
Total Purchased Services	<u><u>\$367,857</u></u>

**VII. Risk Management**

**1. Property and Liability Insurance**

WCSA 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 2009, WCSA contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$4,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

**2. Workers' Compensation**

WCSA makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by WCSA employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2009. There have not been any payments made for this claim. In the opinion of management, this claim will not have a material adverse effect on the overall financial position of WCSA as June 30, 2009.

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

WCSA 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 WCSA for the fiscal year is \$46,505.

**VIII. Defined Benefit Pension Plans**

**1. State Teachers Retirement System**

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

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

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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%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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

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

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

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

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

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

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2008 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

WCSA's required contributions for pension obligations for the fiscal years ended June 30, 2009, 2008 and 2007 were \$53,665, \$35,984 and \$-0-, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

**2. School Employees Retirement System**

WCSA 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

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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 Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and WCSA is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. WCSA's contributions to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$5,536, \$4,888 and \$-0-, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

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

**1. State Teachers Retirement System**

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2009, 2008 and 2007 WCSA's contributions to post-employment health care were \$4,128, \$2,768 and \$-0-, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

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**2. School Employees Retirement System**

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2009 the actuarially required allocation is .75%. For the fiscal years ended June 30, 2009, 2008 and 2007 WCSA contributions to Medicare Part B were \$296, \$237 and \$-0-, respectively; 100% has been contributed for fiscal years 2009, 2008 and 2007.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009 the health care allocation is 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than

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1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2009, 2008 and 2007 WCSA contributions to the Health Care Plan, including the surcharge were \$2,242, \$1,686 and \$-0-, respectively; 73.4% has been contributed for fiscal year 2009 and 100% for fiscal years 2008 and 2007. \$597 representing the unpaid surcharge due for fiscal year 2009 is recorded as a liability within the respective funds.

**X. Contingencies**

**1. Grants**

WCSA 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 WCSA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCSA at June 30, 2009.

**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 2009 are reflected in the financial statements.

**XI. Sponsorship and Management Agreements**

WCSA entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective February 15, 2007 and was amended to continue through June 30, 2010. Sponsorship fees are calculated as 2% of the Fiscal Year 2009 Foundation payments received by WCSA, from the State of Ohio. The total amount due from WCSA for fiscal year 2009 was \$16,389, all of which was paid prior to June 30, 2009.

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WCSA entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2009. The agreement was for a period of one year, effective July 1, 2008. Management fees are calculated as 5.5% of the Fiscal Year 2009 Foundation payment received by WCSA from the State of Ohio plus a fixed fee of \$62,500. The total amount due from WCSA for the fiscal year ending June 30, 2009 was \$107,520 all of which was paid prior to June 30, 2009.





# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 25, 2009

To the Board of Trustees  
Constellation Schools: Westside School of the Arts  
307 West 7<sup>th</sup> Street  
Lorain, OH 44052

**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: Westside School of the Arts as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 25, 2009. 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: Westside School of the Arts' 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: Westside School of the Arts in a separate letter dated November 25, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Constellation Schools: Westside School of the Arts' 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.*



**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

Constellation Schools: Westside Community School of the Arts  
3326 Broadview Road  
Cleveland, OH 44109

November 25, 2009

To the Board of Trustees:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on October 20, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

- (3) A procedure for reporting prohibited incidents;
- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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

*Rea & Associates, Inc.*



**Mary Taylor, CPA**  
Auditor of State

**WESTSIDE COMMUNITY SCHOOL OF THE ARTS  
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 14, 2010**