

**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
CUYAHOGA COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2012



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Westpark Community Middle
4400 West 140th Street
Cleveland, Ohio 44135

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Westpark Community Middle, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Middle is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 29, 2013

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

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November 27, 2012

The Board of Trustees
Constellation Schools: Westpark Community Middle
4400 West 140th Street
Cleveland, Ohio 44135

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Westpark Community Middle, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2012, 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 the School, as of June 30, 2012, 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 27, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hea & Associates, Inc.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

The discussion and analysis of Constellation Schools: Westpark Community Middle's (WCM) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the financial performance of WCM 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 WCM.

Financial Highlights

Key financial highlights for 2012 include the following:

- In total, net assets decreased \$121,177, which represents a 40.9% decrease from 2011. Although revenues increases from higher enrollment were received the school experienced higher operating costs in salaries & benefits, special education services, student services, rent, administrative costs and technology purchases as well as a decrease in federal stimulus funds and minor state grants from the previous year.
- Total assets decreased \$120,802, which represents a 39.1% decrease from 2011. All of this decrease is from the use of cash to pay operating expenses, the prepayment of July health insurance and depreciation of capital assets.
- Liabilities increased by \$375, which represents a 2.9% increase from 2011. Minor increases occurred in vendor payables with an increase in deferred revenue.
- Operating revenues increased by \$241,068, which represents a 20.8% increase from 2011. This is a direct result of increased enrollment as well as increases in materials fees and lunch collections.
- Expenses increased by \$181,008 which represents an 11.8% increase from 2011. Operating expense increases are due to increases in staffing levels, special education services, changes in services provided to students and normal annual cost increases. These increases were necessitated by the increase in enrollment from the prior year.
- Non-operating revenues decreased by \$113,588, which represents a 36.8% decrease from 2011. This is due to the expiration of federal stimulus grants, and minor state grants in 2012.

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 MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Statement of Net Assets

The Statement of Net Assets looks at how well WCM has performed financially through June 30, 2012. 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, 2012 and 2011 for WCM.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$82,503	\$162,879	(\$80,376)	-49.3%
Other Current Assets	11,848	2,736	9,112	333.0%
Non-Current Assets	25,000	25,000	0	100.0%
Capital Assets	<u>69,096</u>	<u>118,634</u>	<u>(49,538)</u>	<u>-41.8%</u>
Total Assets	<u>188,447</u>	<u>309,249</u>	<u>(120,802)</u>	<u>-39.1%</u>
Liabilities				
Current Liabilities	<u>13,232</u>	<u>12,857</u>	<u>375</u>	<u>2.9%</u>
Total Liabilities	<u>13,232</u>	<u>12,857</u>	<u>375</u>	<u>2.9%</u>
Net Assets				
Investment in capital assets	69,096	118,634	(49,538)	-41.8%
Unrestricted	<u>106,119</u>	<u>177,758</u>	<u>(71,639)</u>	<u>-40.3%</u>
Total Net Assets	<u><u>\$175,215</u></u>	<u><u>\$296,392</u></u>	<u><u>(\$121,177)</u></u>	<u><u>-40.9%</u></u>

Net Assets decreased \$121,177, due to higher operating costs, increases in prepaid expenses and purchases of classroom technology equipment in 2012. The school received additional revenue from the state of Ohio but also incurred increased operating costs directly related to the enrollment increase. Cash decreased \$80,376; due from other governments decreased \$131; prepaid expenses increased \$9,243 and net capital assets decreased \$49,538 from 2011. Accounts payable increased \$265 and deferred revenues increased \$110 from 2011.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

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, 2012.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for WCM for fiscal years ended June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$1,337,930	\$1,115,594	\$222,336	19.9%
Other Operating Revenues	60,262	41,530	18,732	45.1%
Total Operating Revenues	<u>1,398,192</u>	<u>1,157,124</u>	<u>241,068</u>	<u>20.8%</u>
Federal and State Grants	195,230	307,616	(112,386)	-36.5%
Private Grants and Contributions	0	1,202	(1,202)	-100.0%
Total Non-Operating Revenues	<u>195,230</u>	<u>308,818</u>	<u>(113,588)</u>	<u>-36.8%</u>
Total Revenues	<u>1,593,422</u>	<u>1,465,942</u>	<u>127,480</u>	<u>8.7%</u>
Expenses				
Salaries	657,107	583,590	73,517	12.6%
Fringe Benefits	190,885	169,498	21,387	12.6%
Purchased Services	686,436	561,259	125,177	22.3%
Materials and Supplies	65,585	83,773	(18,188)	-21.7%
Capital Outlay	20,525	10,076	10,449	103.7%
Depreciation and Amortization	63,049	102,723	(39,674)	-38.6%
Other Expenses	31,012	22,672	8,340	36.8%
Total Expenses	<u>1,714,599</u>	<u>1,533,591</u>	<u>181,008</u>	<u>11.8%</u>
Net Income/(Loss)	<u>(121,177)</u>	<u>(67,649)</u>	<u>(53,528)</u>	<u>79.1%</u>
Net Assets at Beginning of the Year	<u>296,392</u>	<u>364,041</u>	<u>(67,649)</u>	<u>-18.6%</u>
Net Assets at End of Year	<u>\$175,215</u>	<u>\$296,392</u>	<u>(\$121,177)</u>	<u>-40.9%</u>

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Net Assets decreased in both fiscal years ended June 30, 2012 and June 30, 2011. This is due to increased enrollment offset by increased expenditures 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.

Overall, revenues increased by \$127,480 from 2011 to 2012. The most significant revenue changes are an increase of \$222,336 in Foundation and Poverty Based Assistance funds due to increased enrollment and a decrease of \$112,386 in federal stimulus funding and minor state grants to the school. Increases or decreases occurred in all other areas of revenue including materials fees, contributions and miscellaneous other revenues.

Expenses increased from 2011 to 2012 because of increased enrollment from 2011, increased special education needs and normal cost increases. Salaries and Fringe Benefits increased \$94,904 due to personnel additions and annual increases. Purchased services increased \$125,177 due to increases in special education services, pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$18,188 due to reduced purchases of text books and classroom supplies in 2012. Capital Outlay increased \$10,449 due to additional purchases of technology equipment during 2012. Depreciation decreased \$39,674 as a result of equipment and furniture reaching full depreciation during the year. Other Expenses increased by \$8,340 from the prior year mostly due to increased fundraising expenses.

Capital Assets

As of June 30, 2012, WCM had \$69,096 invested in computers and office equipment, furniture and equipment, and building improvements, net of depreciation. This is a \$49,538 decrease from June 30, 2011.

The following schedule provides a summary of Capital Assets as of June 30, 2012 and 2011 for WCM.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Computers and Technology	\$17,112	\$63,762	(\$46,650)	-73.2%
Furniture and Equipment	<u>51,984</u>	<u>54,872</u>	<u>(2,888)</u>	<u>-5.3%</u>
Net Capital Assets	<u>\$69,096</u>	<u>\$118,634</u>	<u>(\$49,538)</u>	<u>-41.8%</u>

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

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Current Financial Issues

Constellation Schools: Westpark Community Middle opened in January of 2006. It has grown from 61 students, four teaching staff members and expenses of \$240,088 to a total of 191 students, 18 teaching staff members and expenses of \$1,714,599 (please note that the first year of operations was for only one-half of a school year). Grades 5 through 8 were split off from Constellation Schools: Westpark Community Elementary (WCE) to form Constellation Schools: Westpark Community Middle. This is providing more flexibility in the curriculum for each student. During 2008 WCE sold the property it owned and the schools operated from to the Industrial Development Authority of the County of Pima (IDA). During the 2010 fiscal year IDA constructed a building addition to the facility and WCM temporarily moved to another location. Effective July 1, 2010 WCM moved back to the original facility and is sharing space with WCE.

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 WCM and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Treasurer/CFO Thomas F. Babb, CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Westpark Community Middle
Cuyahoga County
Statement of Net Assets
As of June 30, 2012**

Assets:

Current Assets:

Cash	\$82,503
Due from Other Governments	2,605
Prepaid Expenses	9,243
<i>Total Current Assets</i>	<u>94,351</u>

Non-Current Assets:

Security Deposits	25,000
Capital Assets (Net of Accumulated Depreciation)	69,096
<i>Total Non-Current Assets</i>	<u>94,096</u>

<i>Total Assets</i>	<u>188,447</u>
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Liabilities:

Current Liabilities:

Accounts Payable	2,712
Deferred Revenue	10,520

<i>Total Liabilities</i>	<u>13,232</u>
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Net Assets:

Investment in capital assets	69,096
Unrestricted	106,119

<i>Total Net Assets</i>	<u><u>\$175,215</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Westpark Community Middle
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$1,337,930
Other Operating Revenues	<u>60,262</u>
<i>Total Operating Revenues</i>	<u>1,398,192</u>

Operating Expenses:

Salaries	657,107
Fringe Benefits	190,885
Purchased Services	686,436
Materials and Supplies	65,585
Capital Outlay	20,525
Depreciation	63,049
Other Operating Expenses	<u>31,012</u>
<i>Total Operating Expenses</i>	<u>1,714,599</u>
Operating Loss	<u>(316,407)</u>

Non-Operating Revenues:

Federal and State Grants	<u>195,230</u>
<i>Total Non-Operating Revenues</i>	<u>195,230</u>
Net Loss	<u>(121,177)</u>
Net Assets at Beginning of the Year	<u>296,392</u>
Net Assets at End of Year	<u><u>\$175,215</u></u>

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

**Constellation Schools: Westpark Community Middle
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,337,930
Cash Payments to Suppliers for Goods and Services	(1,002,896)
Cash Payments to Employees for Services	(657,107)
Other Operating Revenues	<u>60,372</u>
Net Cash Used for Operating Activities	<u>(261,701)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>194,835</u>
Net Cash Provided by Noncapital Financing Activities	<u>194,835</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(13,510)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(13,510)</u>
Net Decrease in Cash	(80,376)
Cash at Beginning of Year	<u>162,879</u>
Cash at End of Year	<u><u>\$82,503</u></u>

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

**Constellation Schools: Westpark Community Middle
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012
(Continued)**

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

Operating Loss	(\$316,407)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	63,049
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments	525
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(Increase) in Prepaid Expenses	(9,243)
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Increase in Accounts Payable	265
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Increase in Deferred Revenue	110
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Total Adjustments	54,706
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Net Cash Used for Operating Activities	(\$261,701)
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The accompanying notes to the financial statements are an integral part of this statement.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

I. Description of the School and Reporting Entity

Constellation Schools: Westpark Community Middle (WCM), previously Garfield Heights Community School (GHCS) and Westpark Community Middle School (WCMS), is a nonprofit corporation established on December 5, 2003 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 March 28, 2006, WCM 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 WCM. WCM, which is part of Ohio's education program, is independent of any school district. WCM may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCM.

WCM (as GHCS) was approved for operation under a contract dated January 20, 2004 between the Governing Authority of WCM (as GHCS) and the Lucas County Educational Service Center (LCESC) (the Sponsor). On August 18, 2005 WCM (as GHCS) entered into a contract with Buckeye Community Hope Foundation (BCHF) to have BCHF replace LCESC as their sponsor which was amended January 22, 2009 to extend the term of the original contract until June 30, 2010. A renewal contract was issued effective June 30, 2010 through June 30, 2015. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. WCM 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: Westpark Community Middle.

WCM operates under a six 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 WCM instructional facility staffed by eighteen certificated full time teaching personnel who provided services to 191 students. During 2012, the board members for WCM also serve as the board for Constellation Schools: Westpark Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of WCM have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. WCM also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

conflict with or contradict GASB pronouncements. WCM has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of WCM'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. WCM 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 WCM 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 WCM must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to WCM on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

4. Budgetary Process

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

5. Due From Other Governments

Moneys due WCM for the year ended June 30, 2012 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated 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 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:

Capital Asset Classification	Years
Computers and Technology	3
Furniture and Equipment	10

7. Intergovernmental Revenues

WCM 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. WCM also participates in Federal Entitlement Programs, the American Recovery and Reinvestment Act, Education Jobs, Race to the Top and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2012 school year totaled \$1,533,160.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

8. Private Grants and Contributions

WCM 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. WCM did not receive any grants or contributions during the fiscal year.

9. Compensated Absences

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

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

III. Deposits

At fiscal year end June 30, 2012, the carrying amount of WCM's deposits totaled \$82,503 and its bank balance was \$101,651. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2012, none of the bank balance was exposed to custodial risk as discussed below, while \$101,651 was covered by the Federal Depository Insurance Corporation.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

IV. Capital Assets

A summary of capital assets at June 30, 2012 follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Capital Assets Being Depreciated				
Computers and Technology	\$377,400	\$7,031	(\$40,137)	\$344,294
Furniture and Equipment	87,243	6,479	0	93,722
Total Capital Assets Being Depreciated	464,643	13,510	(40,137)	438,016
Less Accumulated Depreciation				
Computers and Technology	(313,638)	(53,681)	40,137	(327,182)
Furniture and Equipment	(32,371)	(9,367)	0	(41,738)
Total Accumulated Depreciation	(346,009)	(63,048)	40,137	(368,920)
Total Capital Assets, Net of Accumulated Depreciation	\$118,634	(\$49,538)	\$0	\$69,096

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE
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Cuyahoga County

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V. Purchased Services

Purchased Services include the following:

Instruction	\$106,103
Pupil Support Services	70,092
Staff Development & Support	26,241
Administrative	249,270
Occupancy Costs	222,577
Transportation	9,350
Student Activities	<u>2,803</u>
Total Purchased Services	<u><u>\$686,436</u></u>

VI. Operating Lease

WCM leases its facility from Constellation Schools: Westpark Community Elementary (WCE) under a one-year sub-lease agreement with the ability to renew annually. Under the terms of the sub-lease WCM made monthly lease payments of \$18,542. WCE charged WCM a total of \$222,500 for rent during the year. As of June 30, 2012, all monies due WCE from WCM have been paid.

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. Effective with the sale of the property to IDA, WCM was provided a sub-lease, and as part of the bond financing arrangement, WCM, as sub-lessor, is required to provide various reports with WCE to IDA.

The Bond Indenture requires WCE to meet certain covenants. As of June 30, 2012 WCE did not meet the required debt service coverage ratio (DSCR) of 1.15 to 1.00, however the debt service coverage ratio did exceed 1.00. Unless waived by the owners of a majority of the principal amount of bonds outstanding, the school will be required to hire a management consultant to make recommendations with respect to increasing revenues, decreasing expenses or other financial matters of the school which are relevant to increasing the DSCR to at least 1.15 to 1.00. The consultant would be required to be retained until the school has achieved a DSCR for at least two consecutive fiscal quarters.

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VII. Risk Management

1. Property and Liability Insurance

WCM 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 2012, WCM 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. 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

WCM makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been three claims filed by WCM employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2012. The total payments made for these claims have been \$6,340. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of WCM as June 30, 2012.

3. Employee Medical, Dental, Vision and Life Benefits

WCM provides medical, dental, vision and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by WCM for the fiscal year is \$79,664.

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

WCM 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.

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

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

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member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the member's account balance.

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively 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, 2011 (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%.

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WCM's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011 and 2010 were \$81,684, \$72,369 and \$66,085, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

WCM 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 under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and WCM 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, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. WCM's contributions to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$4,027, \$3,767 and \$3,629, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

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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, 2012, 2011 and 2010 WCM's contributions to post-employment health care were \$6,283, \$5,567 and \$5,083, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2011 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2012, 2011 and 2010 WCM contributions to Medicare Part B were \$218, \$204 and \$197, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

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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, 2011 the health care allocation is 1.43%. 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 2012, 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, 2012, 2011 and 2010 WCM contributions to the Health Care Plan, including the surcharge were \$846, \$794 and \$511, respectively; 48.6% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010. \$434 representing the unpaid surcharge due for fiscal year 2012 is recorded as a liability within the respective funds.

X. Contingencies

1. Grants

WCM 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 WCM. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCM at June 30, 2012.

2. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2012 are immaterial and are not reflected in the financial statements but will be included in the financial activity for fiscal year 2013.

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3. Student Attendance Data Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of education at a later date.

WCM received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. This also encompasses the Auditor of State's ongoing review of student attendance data. The effect of any such disallowed claims on the overall financial position of the school as of June 30, 2012, if applicable, cannot be determined at this time.

XI. Sponsorship and Management Agreements

WCM entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective September 18, 2005 and was renewed to continue through June 30, 2015. Sponsorship fees are calculated as 3% of the Fiscal Year 2012 Foundation payments received by WCM, from the State of Ohio. The total amount due from WCM for fiscal year 2012 was \$40,138, all of which was paid prior to June 30, 2012

WCM entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2012. The agreement was for a period of one year, effective July 1, 2011. Management fees are calculated as 6.25% of the Fiscal Year 2012 Foundation payment received by WCM from the State of Ohio plus a fixed fee of \$101,075. The total amount due from WCM for the fiscal year ending June 30, 2012 was \$184,632 all of which was paid prior to June 30, 2012.

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November 27, 2012

To the Board of Trustees
Constellation Schools: Westpark Community Middle
4400 West 140th 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 Middle, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. 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

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Constellation Schools: Westpark Community Middle
Independent Auditors Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

Compliance and Other Matters

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

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.



Dave Yost • Auditor of State

WESTPARK COMMUNITY MIDDLE

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
FEBRUARY 12, 2013