

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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA

Auditor of State

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

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, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Constellation Schools: Westside Community School of the Arts is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 26, 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 26, 2008

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, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

Constellation Schools: Westside Community School of the Arts
Independent Auditor's Report
Page 2

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

Hea & Associates, Inc.

CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

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, 2008. 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 2008 include the following:

- The school began operations on August 2007 by enrolling grades kindergarten through 3. Enrollment for the first year was 84 students. Budgeted enrollment for the 2009 school year is 120 students.
- In total, net assets increased \$49,225 from 2007. This increase is due to opening the school with a full enrollment and receiving a \$150,000 federal start-up grant. Enrollment for the 2009 school year increased by two classes to a total of 120 students.
- Total assets increased \$118,013 from 2007. This increase includes increases in cash, other current assets and net capital assets, and is due to the first year of school operations.
- Liabilities increased \$68,788 from 2007. Current liabilities include accounts payable and deferred revenue. Long-term liabilities include leasehold improvements payable.
- Operating revenues were \$693,587. The majority of the revenues are from the State Foundation and Poverty Based Assistance program. Additional funding came from materials fees and funding from Constellation Schools.
- Operating expenses were \$862,394. The largest expenses are staffing, materials and supplies, and services purchased by the school such as instructional services, professional development, administrative services, and building rent.
- Non-operating revenues were \$218,031. This includes interest income, federal start-up grant, federal entitlement and food service grants, state grants and private contributions.

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, 2008
Unaudited

Statement of Net Assets

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

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

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 8,128	\$ 3,104
Other Current Assets	28,539	0
Capital Assets	<u>84,450</u>	<u>0</u>
Total Assets	<u>121,117</u>	<u>3,104</u>
Liabilities		
Current Liabilities	54,092	3,104
Long-Term Liabilities	<u>17,800</u>	<u>0</u>
Total Liabilities	<u>71,892</u>	<u>3,104</u>
Net Assets		
Investments in capital assets net of related debt	48,650	0
Unrestricted	<u>575</u>	<u>0</u>
Net Assets	<u>\$ 49,225</u>	<u>\$ 0</u>

Net Assets increased \$49,225, due to opening the school with a full enrollment and receiving a \$150,000 federal start-up grant. For assets, cash increased \$5,024; due from other governments increased \$28,000; accounts receivable increased \$539, and net capital assets increased \$84,450 from 2007. For liabilities, accounts payable increased \$29,367; accrued wages and benefits increased \$2,251 and deferred revenues increased \$1,370 from 2007.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2008.

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

CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

	<u>2008</u>	<u>2007</u>
Revenues		
Foundation and Poverty Based Assistance Revenues	\$ 573,901	\$ 0
Other Operating Revenues	<u>119,686</u>	<u>0</u>
Operating Revenues	<u>693,587</u>	<u>0</u>
Interest	31	0
Private Grants and Contributions	308	0
Federal and State Grants	<u>217,692</u>	<u>0</u>
Non-Operating Revenues	<u>218,031</u>	<u>0</u>
Total Revenues	<u>911,618</u>	<u>0</u>
Expenses		
Salaries	311,716	0
Fringe Benefits	77,877	0
Purchased Services	286,112	0
Materials and Supplies	113,556	0
Capital Outlay	28,924	0
Depreciation	31,211	0
Other Operating Expenses	<u>12,997</u>	<u>0</u>
Total Expenses	<u>862,393</u>	<u>0</u>
Net Income/(Loss)	49,225	0
Net Assets at Beginning of Year	<u>0</u>	<u>0</u>
Net Assets at End of Year	<u>\$ 49,225</u>	<u>\$ 0</u>

The school began operation in August 2007 by enrolling kindergarten through 3rd grade students with enrollment at 84 students. Since the school did not open prior to the 2007-2008 school year a comparative analysis has not been made for this statement.

Capital Assets

As of June 30, 2008, WCSA had \$84,450 invested in leasehold improvements, computers and office equipment, furniture and equipment, and leasehold improvements, net of depreciation. This is an \$84,450 increase over June 30, 2007.

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

CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

	<u>2008</u>	<u>2007</u>
Capital Assets (net of depreciation)		
Leasehold Improvements	\$ 49,394	\$ 0
Computers and Office Equipment	19,786	0
Furniture, Equipment & Materials	<u>15,270</u>	<u>0</u>
Net Fixed Assets	<u>\$ 84,450</u>	<u>\$ 0</u>

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

Current Financial Issues

Constellation Schools: Westside Community School of the Arts opened in August 2007. In its initial year of operations it had eighty-four students, eleven teaching staff members and expenses of \$862,393. The school opened with grades kindergarten through 3. For fiscal year 2009 the school is budgeted for a total of 120 students, twelve teaching staff members and expenses of \$1,393,430. The increase in enrollment for the 2009 meets the plan for the school and will result in a positive net asset balance at June 30, 2008. As the School grows to full enrollment we will continue to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during this initial year.

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 54th Street, Parma, Ohio 44129; by e-mail at babb.thomas@constellationschools.com; by calling 440.845.7688; or by faxing 440.845.7689.

**Constellation Schools: Westside Community School of the Arts
Cuyahoga County
Statement of Net Assets
As of June 30, 2008**

Assets:

Current Assets:

Cash	\$8,128
Due from Other Governments	28,000
Accounts Receivable	539
<i>Total Current Assets</i>	36,667

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	84,450
<i>Total Non-Current Assets</i>	84,450

<i>Total Assets</i>	121,117
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Liabilities:

Current Liabilities:

Accounts Payable	29,741
Accrued Wages and Benefits	2,251
Deferred Revenue	4,100
Leasehold Improvements Payable	18,000
<i>Total Liabilities</i>	54,092

Long Term Liabilities:

Leasehold Improvements Payable	17,800
<i>Total Liabilities</i>	71,892

Net Assets:

Investment in capital assets, net of related debt	48,650
Unrestricted	575
<i>Total Net Assets</i>	\$49,225

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, 2008**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$573,901
Other Operating Revenues	119,686
	693,587

Operating Expenses:

Salaries	311,716
Fringe Benefits	77,877
Purchased Services	286,112
Materials and Supplies	113,556
Capital Outlay	28,924
Depreciation	31,211
Other Operating Expenses	12,997
	862,393
Operating Loss	(168,806)

Non-Operating Revenues:

Interest	31
Federal and State Grants	217,692
Private Grants and Contributions	308
	218,031
Net Loss	49,225
Net Assets at Beginning of the Year	0
Net Assets at End of Year	\$49,225

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, 2008**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$573,901
Cash Payments to Suppliers for Goods and Services	(492,423)
Cash Payments to Employees for Services	(307,455)
Other Operating Revenues	<u>120,831</u>
Net Cash Used for Operating Activities	<u>(105,146)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	308
Federal and State Grants Received	<u>189,692</u>
Net Cash Provided by Noncapital Financing Activities	<u>190,000</u>

Cash Flows from Capital and Related Financing Activities:

Increase in Leasehold Improvements Payable	35,800
Payments for Capital Acquisitions	<u>(115,661)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(79,861)</u>

Cash Flows from Investing Activities:

Interest	<u>31</u>
Net Cash Provided by Investing Activities	<u>31</u>
Net Increase in Cash	5,024
Cash at Beginning of Year	<u>3,104</u>
Cash at End of Year	<u><u>\$8,128</u></u>

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, 2008
(Continued)**

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

Operating Loss	(\$168,806)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	31,211
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Changes in Assets and Liabilities:

(Increase) in Accounts Receivable	(539)
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Increase in Accounts Payable	29,367
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Increase in Accrued Wages and Benefits	2,251
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Increase in Deferred Revenue	1,370
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Total Adjustments	63,660
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Net Cash Used for Operating Activities	(\$105,146)
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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
- A Community School -
Cuyahoga County**

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

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 July 17, 2008, WCSA applied for 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 2008 was made by BCHF on August 6, 2007. 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 eleven certificated full time teaching personnel who provided services to 84 students. During 2008, the board members for WCSA also serve as the board for Constellation Schools: Stockyard Community Elementary.

II. Summary of Significant Accounting Policies

The financial statements of WCSA have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

WCSA also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of 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 provided to WCSA on a reimbursement basis. Expenses are recognized at the time they are incurred.

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

6. Capital Assets 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:

Capital Asset Classification	Years
Leasehold Improvements	3
Computers and Office Equipment	3
Furniture, Equipment and materials	10

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

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

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, WCSA was awarded \$150,000 in fiscal year 2008 to offset start-up costs of the School. During fiscal year 2008, all of the \$150,000 from the award was received. 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 2008 school year totaled \$791,593.

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 2008 school year totaled \$308.

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.

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE
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- A Community School -
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008, the carrying amount of WCSA' deposits totaled \$8,128 and its bank balance was \$19,698. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, none of the bank balance was exposed to custodial risk as discussed below, while \$19,698 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 Lease

Effective July 1, 2007 WCSA assumed the lease on its facility from Constellation Schools (management company – see note XI). Under the terms of the lease WCSA leases the facility from Nunzio Marzana and assumes the \$53,800 balance of leasehold improvements payable at assumption. Total rents and leasehold improvements payable paid to Nunzio Marzana during the fiscal year totaled \$49,800 and \$18,000 respectively. The balance of leasehold improvements payable as of June 30, 2008 is \$35,800.

**CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

V. Capital Assets

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

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 0	\$ 73,528	\$ 0	\$ 73,528
Computers/Office Equipment	0	25,575	0	25,575
Furniture and Equipment	<u>0</u>	<u>16,558</u>	<u>0</u>	<u>16,558</u>
Total Capital Assets				
Being Depreciated:	<u>0</u>	<u>115,661</u>	<u>0</u>	<u>115,661</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(0)	(24,134)	0	(24,134)
Computers/Office Equipment	(0)	(5,789)	0	(5,789)
Furniture and Equipment	<u>(0)</u>	<u>(1,288)</u>	<u>0</u>	<u>(1,288)</u>
Total Accumulated				
Depreciation:	<u>(0)</u>	<u>(31,211)</u>	<u>0</u>	<u>(31,211)</u>
Total Capital Assets Being				
Depreciated, Net	<u>\$ 0</u>	<u>\$ 84,450</u>	<u>\$ 0</u>	<u>\$ 84,450</u>

VI. Purchased Services

Purchased Services include the following:

Instruction	\$35,033
Pupil Support Services	16,779
Staff Development & Support	9,897
Administrative	104,526
Occupancy Costs	92,411
Food Services	<u>27,466</u>
Total	<u>\$286,112</u>

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

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 2008, 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.

2. Workers' Compensation

WCSA makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by WCSA employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2008.

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 \$24,290.

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.

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**NOTES TO THE FINANCIAL STATEMENTS
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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. 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% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members' lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount.

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

The Combined Plan offers features of the DC Plan and the DB Plan. Member contributions are allocated to investments selected by the member, and employer

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

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

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

WCSA's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were \$35,984, \$0 and \$0, respectively; 98.48% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$546 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

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 under *Forms and Publications*.

Plan members are required to contribute 10% of their annual covered salary and WCSA is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. WCSA's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$4,888, \$-0-, and \$-0-, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

IX. Post-Employment Benefits Other than Pension Benefits

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. For the fiscal years ended June 30, 2008, 2007 and 2006 WCSA's contributions to post-employment health care were \$2,768, \$0 and \$0, respectively. 98.48% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$42 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds.

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

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selected, qualified years of service, Medicare eligibility, and retirement status.

The Medicare Part B premium reimbursement plan reimburses eligible retirees for the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2007 (most recent information available) was \$93.50. SERS' reimbursement to retirees was \$45.50. The Retirement Board, with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2007 (most recent information available) the actuarially required allocation was .68%. For the fiscal years ended June 30, 2008, 2007 and 2006 WCSA's contributions to Medicare Part B were \$237, \$-0- and \$-0-, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

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

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

For fiscal years ended June 30, 2008, 2007 and 2006 WCSA contributions to the Health Care Plan, including the surcharge were \$1,686, \$-0- and \$-0-, respectively; 68.76% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$527 representing the unpaid surcharge due for fiscal year 2008 is recorded as a liability within the respective funds.

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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, 2008.

2. Enrollment FTE

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

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. Sponsorship fees are calculated as 2% of the Fiscal Year 2008 Foundation payments received by WCSA, from the State of Ohio. The total amount due from WCSA for fiscal year 2008 was \$11,428, all of which was paid prior to June 30, 2008

WCSA entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2008. The agreement was for a period of one year, effective July 1, 2007. Management fees are calculated as 5.5% of the Fiscal Year 2008 Foundation payment received by WCSA from the State of Ohio plus a fixed fee of \$37,500. The total amount due from WCSA for the fiscal year ending June 30, 2008 was \$69,065 of which \$13,191 was outstanding as of June 30, 2008.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 26, 2008

To the Board of Trustees
Constellation Schools: Westside School of the Arts
3326 Broadview Road
Cleveland, OH 44109

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, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Constellation Schools: 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 26, 2008.

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.



Mary Taylor, CPA
Auditor of State

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CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 16, 2009**