

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

**CUYAHOGA COUNTY, OHIO**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2017**



**Constellation Schools**

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





# Dave Yost • Auditor of State

Board of Trustees  
Constellation Schools: Westside Community School of the Arts  
3727 Bosworth Road  
Cleveland, OH 44111

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, 2016 through June 30, 2017. 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.

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

Dave Yost  
Auditor of State

December 22, 2017



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

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November 26, 2017

To the Board of Trustees  
Constellation Schools: Westside Community School of the Arts  
Cuyahoga County, Ohio  
3727 Bosworth Road  
Cleveland, OH 44111

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Constellation Schools: Westside Community School of the Arts, Cuyahoga County, Ohio, (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note II.4, the School restated the net position balance to account for the reallocation of certain management company employees reported under one employer code within the state retirement systems, and their effect on the net pension liability, deferred outflows of resources and deferred inflows of resources. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School Contributions* on pages 5–11, 39, and 40-41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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 the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2017 on our consideration of the School's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Cambridge, Ohio

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

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

For the Year Ended June 30, 2017

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, 2017. 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 2017 include the following:

- Final renovations of the school building occurred during fiscal year to accommodate the enrollment growth and increased educational programs.
- In total, net position decreased \$165,593, which represents a 13.9% decrease from 2016. This decrease is due to increases in cash, prepaid expenses and deferred outflow of resources with offsets in net capital assets, vendor payables, payroll payable, due from other governments, pension liability and decreases in loans payable, mortgage loans payable and deferred inflow of resources.
- Total assets and deferred outflows of resources increased \$1,079,993, which represents a 28.3% increase from 2016. This increase is due primarily to increases in cash, prepaid expenses and deferred outflow of resources with decreases in due from other governments and net capital assets.
- Liabilities and deferred inflows of resources increased \$1,245,586, which represents a 24.9% increase from 2016. Increases in vendor payables, payroll payables and pension liabilities were partially offset by decreases in loans payable, mortgage loans payable and deferred inflow of resources.
- Operating revenues increased by \$215,073, which represents a 7.0% increase from 2016. This is a direct result of increased state foundation funds and services provided to other schools.
- Expenses increased by \$439,918 which represents a 12.2% increase from 2016. Operating increases are due to increased educational program offerings.
- Non-operating revenues increased by \$183,151 which represents a 42.7% increase from 2016. This increase occurred primarily in federal grant funding.

### **Using this Financial Report**

This report consists of three parts, the Financial Statements, Notes to the Financial Statements and Required Supplemental Information. The Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

# CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

## Management's Discussion and Analysis

For the Year Ended June 30, 2017

### Statement of Net Position

The Statement of Net Position looks at how well WCSA has performed financially through June 30, 2017. This statement includes all of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position 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 Position for fiscal years ended June 30, 2017 and 2016 for WCSA.

	<u>2017</u>	<u>Restated 2016</u>	<u>Change</u>	<u>%</u>
<b>Assets</b>				
Cash	\$1,137,830	\$927,755	\$210,075	22.6%
Other Current Assets	145,697	137,206	8,491	6.2%
Non-Current Assets	25,000	25,000	0	0.0%
Capital Assets, Net	2,212,064	2,253,088	(41,024)	-1.8%
Deferred Outflow of Resources	1,372,023	469,572	902,451	192.2%
Total Assets and Deferred Outflow of Resources	<u>4,892,614</u>	<u>3,812,621</u>	<u>1,079,993</u>	<u>28.3%</u>
<b>Liabilities</b>				
Current Liabilities	234,244	88,419	145,825	164.9%
Long-Term Liabilities	6,013,563	4,675,007	1,338,556	28.6%
Deferred Inflow of Resources	<u>0</u>	<u>238,795</u>	<u>(238,795)</u>	<u>100.0%</u>
Total Liabilities and Deferred Inflow of Resources	<u>6,247,807</u>	<u>5,002,221</u>	<u>1,245,586</u>	<u>24.9%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	1,091,188	1,064,877	26,311	2.5%
Unrestricted	<u>(2,446,381)</u>	<u>(2,254,477)</u>	<u>(191,904)</u>	<u>8.5%</u>
Total Net Position	<u>(\$1,355,193)</u>	<u>(\$1,189,600)</u>	<u>(\$165,593)</u>	<u>13.9%</u>

Net Position decreased for the year ended June 30, 2017 due primarily to changes in net pension liability with an offset from the combination of increased state funding, increased operating expense increases and facility expenditures. For assets, cash increased \$210,075; accounts receivable decreased \$739, prepaid expenses increased \$27,067; due from other governments decreased \$17,836; net capital assets decreased \$41,025 and deferred outflow of resources increased \$902,451 from 2016. For liabilities, accounts payable increased \$10,980, payroll payable increased \$116,734, due to other governments increased \$18,210, interest payable decreased \$80, unearned revenue decreased \$3,021, loans payable decreased

# CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

## Management's Discussion and Analysis

For the Year Ended June 30, 2017

\$7,594, mortgage notes payable decreased \$59,741, pension liability increased \$1,408,894 and deferred inflow of resources decreased \$238,795 from 2016.

### Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports operating and non-operating activities for the fiscal year ended June 30, 2017.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for WCSA for fiscal years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>Restated 2016</u>	<u>Change</u>	<u>%</u>
<b>Revenues</b>				
Foundation and Poverty Based Assistance Revenues	\$3,101,619	\$2,926,815	\$174,804	6.0%
Casino Tax Distribution	18,064	18,334	(270)	-1.5%
Other Operating Revenues	159,351	118,812	40,539	34.1%
Total Operating Revenues	<u>3,279,034</u>	<u>3,063,961</u>	<u>215,073</u>	<u>7.0%</u>
Interest Income	153	118	35	29.7%
Private Grants and Contributions	20	35	(15)	-42.9%
Federal and State Grants	611,406	428,275	183,131	42.8%
Total Non-Operating Revenues	<u>611,579</u>	<u>428,428</u>	<u>183,151</u>	<u>42.7%</u>
Total Revenues	<u>3,890,613</u>	<u>3,492,389</u>	<u>398,224</u>	<u>11.4%</u>
<b>Expenses</b>				
Salaries	1,783,084	1,403,335	379,749	27.1%
Fringe Benefits	564,927	435,289	129,638	29.8%
Change in Net Pension Liability	267,649	344,576	(76,927)	-22.3%
Purchased Services	1,045,578	1,049,050	(3,472)	-0.3%
Materials and Supplies	137,084	131,386	5,698	4.3%
Capital Outlay	39,868	45,613	(5,745)	-12.6%
Depreciation	113,655	101,193	12,462	12.3%
Other Expenses	104,361	105,846	(1,485)	-1.4%
Total Expenses	<u>4,056,206</u>	<u>3,616,288</u>	<u>439,918</u>	<u>12.2%</u>
Changes in Net Position	<u>(165,593)</u>	<u>(123,899)</u>	<u>(41,694)</u>	<u>-33.7%</u>

## CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

### Management's Discussion and Analysis

For the Year Ended June 30, 2017

Net Position decreased in both fiscal years ending June 30, 2017 and 2016. This is due primarily to changes in net pension liability and is partially mitigated by increased enrollment in both years with an offset of higher operating expenses. 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.

Overall, revenues increased by \$398,224 from 2016 to 2017. The most significant changes in revenues from 2016 to 2017 are increases of \$174,804 in Foundation funding, \$183,131 in state and federal grants and \$67,475 for services provided to other schools. Revenue decreases occurred in the amount of \$9,363 for materials fees and \$29,893 in insurance claims proceeds. Minor changes occurred in other revenue categories.

Expenses increased \$439,918 from 2016 mostly as a result of increased and expanded educational programs and normal annual program increases. Salaries and Fringe Benefits increased \$509,387 due to increased staff and routine annual increases. Changes in Net Pension Liability expense is due to recognition of pension liabilities per GASB 68. Purchased services decreased \$3,472 due to savings realized by hiring staff for student services, with creases in specialized student services, technology programs, equipment leases, facility services and administrative fees. Materials and Supplies increased \$5,698 due to increases in online instruction programs, student workbooks and facility supplies purchases. Capital Outlay decreased \$5,745 due reduced purchases of furniture and equipment which was not capitalized. Depreciation increased by \$12,462 due to facility improvements and a full year of depreciation for capital assets placed in service during the previous fiscal year. Other Expenses decreased \$1,485 due to interest charges insurance changes and changes in miscellaneous expenses.

### Capital Assets

As of June 30, 2017, WCSA had \$2,212,064 invested in land, construction is process, building, building improvements, technology and software, furniture and equipment, net of depreciation. This is a \$41,024 decrease from June 30, 2016.

The following schedule provides a summary of Capital Assets as of June 30, 2017 and 2016 for WCSA.

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>%</u>
<b>Capital Assets (net of depreciation)</b>				
Land	\$106,780	\$106,780	\$0	0.0%
Construction in Process	8,345	0	8,345	100.0%
Building	756,061	778,555	(22,494)	-2.9%
Building Improvements	1,235,059	1,213,125	21,934	1.8%
Technology and Software	29,042	52,156	(23,114)	-44.3%
Furniture and Equipment	<u>76,777</u>	<u>102,472</u>	<u>(25,695)</u>	<u>-25.1%</u>
Net Capital Assets	<u>\$2,212,064</u>	<u>\$2,253,088</u>	<u>(\$41,024)</u>	<u>-1.8%</u>

For more information on capital assets see the Notes to the Financial Statements (See Note IV).

# CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

## Management's Discussion and Analysis

For the Year Ended June 30, 2017

### Equipment Financing

During fiscal year 2015, WCSA secured a four-year loan with CF Bank to purchase \$30,513 of technology equipment. The equipment has been recorded as capital equipment to recognize the assets, and as loans payable to recognize the debt. The outstanding principal value as of June 30, 2017 on the loan payable is \$12,670.

For more information on equipment financing see the Notes to the Financial Statements See Note VI).

### Mortgage Financing

On February 11, 2011 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage was held by PNC Bank, National Association with a face value of \$750,000 for an initial term of two years on a thirty-year amortization schedule, an interest rate of 4.748% per annum and a balloon payment due in fiscal year 2013. The loan which had been renegotiated to a rate of 3.76% per annum and a due date of January 28, 2015 was extended until January 1, 2020.

In September 2015 the PNC Bank mortgage loan was refinanced through U.S. Bank. The loan included additional funds to renovate and remodel facilities owned by WCSA. A first position mortgage note in the amount of \$1,211,000 is held by U.S. Bank. The note is for a term of five years, based on a fifteen-year amortization schedule, with an interest rate of 4.35% per annum and a balloon payment due at the end of the term in fiscal year 2021. The outstanding principal value as of June 30, 2017 on the mortgage note payable is \$1,108,206.

The second mortgage was held by the Roman Catholic Diocese of Cleveland (Diocese), had a face value of \$200,000, a term of four years (on a fifteen-year amortization schedule) and an interest rate of 8.00% per annum. The balloon payment on the loan was paid during fiscal year 2015.

For more information on mortgage financing see the Notes to the Financial Statements (See Note VIII).

### Net Pension Liabilities

Under the standards required by GASB 68, the net pension liability equals WCSA's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they

## CONSTELLATION SCHOOLS: WESTSIDE COMMUNITY SCHOOL OF THE ARTS

### Management's Discussion and Analysis

For the Year Ended June 30, 2017

received the benefit of the exchange. However, WCSA is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, WCSA's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, WCSA is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of \$520,081.

### **Current Financial Issues**

Constellation Schools: Westside Community School of the Arts opened in August 2007. It has increased from its initial year of operations of eighty-four students, eleven teaching staff members and expenses of \$862,393 to 367 students, 42 teaching staff members and expenses of \$4,056,206. During 2011 WCSA purchased the property the school occupies so that it will have a permanent location and continue to grow.

The Board of Directors, school management and school staff continue to work diligently to ensure that WCSA maintains the highest level of educational services and financial integrity that we have always provided. Our goal continues to be providing a strong educational product for our students and families and to maintain the reputation we have developed during our previous years.

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

Management's Discussion and Analysis

For the Year Ended June 30, 2017

**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, M.A., CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County, Ohio  
Statement of Net Position  
As of June 30, 2017**

**Assets:**

**Current Assets:**

Cash	\$1,137,830
Due from Other Governments	103,220
Prepaid Expenses	42,466
Accounts Receivable	11
<i>Total Current Assets</i>	1,283,527

**Non-Current Assets:**

Security Deposits	25,000
Non-Depreciable Capital Assets	115,125
Capital Assets (Net of Accumulated Depreciation)	2,096,939
<i>Total Non-Current Assets</i>	2,237,064
<i>Total Assets</i>	3,520,591

**Deferred Outflow of Resources:**

Pension (STRS & SERS)	1,372,023
<i>Total Deferred Outflow of Resources</i>	1,372,023
<i>Total Assets and Deferred Outflow of Resources</i>	4,892,614

**Liabilities:**

**Current Liabilities:**

Accounts Payable	24,381
Payroll Payable	116,734
Due to Other Governments	19,319
Interest Payable	1,272
Unearned Revenue	2,200
Loan Payable	7,907
Mortgage Notes Payable	62,431
<i>Total Current Liabilities</i>	234,244

**Long Term Liabilities:**

Loan Payable	4,763
Mortgage Notes Payable	1,045,775
Net Pension Liability	4,963,025
<i>Total Long Term Liabilities</i>	6,013,563
<i>Total Liabilities</i>	6,247,807

**Net Position:**

Net Investment in Capital Assets	1,091,188
Unrestricted	(2,446,381)
<i>Total Net Position</i>	(\$1,355,193)

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

**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County, Ohio  
Statement of Revenues, Expenses and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2017**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$3,101,619
Casino Tax Distributions	18,064
Other Operating Revenues	<u>159,351</u>
<i>Total Operating Revenues</i>	<u>3,279,034</u>

**Operating Expenses:**

Salaries	1,783,084
Fringe Benefits	564,927
Change in Net Pension Liability	267,649
Purchased Services	1,045,578
Materials and Supplies	137,084
Capital Outlay	39,868
Depreciation	113,655
Other Operating Expenses	<u>53,443</u>
<i>Total Operating Expenses</i>	<u>4,005,288</u>

Operating Loss	<u>(726,254)</u>
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**Non-Operating Revenues & (Expenses):**

Interest Income	153
Interest Expense	(50,918)
Contributions	20
Federal and State Grants	<u>611,406</u>
<i>Total Non-Operating Revenues &amp; (Expenses)</i>	<u>560,661</u>

Change in Net Position	<u>(165,593)</u>
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Net Position at Beginning of the Year – Restated – (See Note II.4)	<u>(1,189,600)</u>
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Net Position at End of Year	<u><u>(\$1,355,193)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Constellation Schools: Westside Community School of the Arts  
Cuyahoga County, Ohio  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2017**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$3,119,683
Cash Payments to Suppliers for Goods and Services	(1,829,322)
Cash Payments to Employees for Services	(1,666,350)
Other Operating Revenues	<u>157,069</u>
Net Cash Used for Operating Activities	<u>(218,920)</u>

**Cash Flows from Noncapital Financing Activities:**

Contributions	20
Federal and State Grants	<u>619,786</u>
Net Cash Provided by Noncapital Financing Activities	<u>619,806</u>

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

Payments for Capital Acquisitions	(72,631)
Loan Principal Payments	(7,594)
Loan Interest Payments	(681)
Mortgage Loan Principal Payments	(59,741)
Mortgage Loan Interest Payments	<u>(50,317)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(190,964)</u>

**Cash Flows from Investing Activities:**

Interest	<u>153</u>
Net Cash Provided by Investing Activities	<u>153</u>

Net Increase in Cash	210,075
Cash at Beginning of Year	<u>927,755</u>
Cash at End of Year	<u><u>\$1,137,830</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, Ohio**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2017**  
**(Continued)**

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

Operating Loss	(\$726,254)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation	113,655
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Changes in Assets, Liabilities, Deferred Inflows of Resources  
and Deferred Outflows of Resources:

Decrease in Accounts Receivable	739
(Increase) in Prepaid Expenses	(27,067)
Decrease in Due from Other Governments	9,456
(Increase) in Deferred Outflows - Pensions	(902,451)
Increase in Accounts Payable	10,980
Increase in Payroll Payable	116,734
Increase in Due to Other Governments	18,210
(Decrease) in Unearned Revenue	(3,021)
Increase in Net Pension Liability	1,408,894
(Decrease) in Deferred Inflows - Pensions	(238,795)

Total Adjustments	507,334
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Net Cash Used for Operating Activities	(\$218,920)
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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, Ohio**

**NOTES TO THE FINANCIAL STATEMENTS  
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**I. Description of the School and Reporting Entity**

Constellation Schools: Westside Community School of the Arts (WCSA) is a nonprofit corporation established on January 25, 2007 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On April 23, 2009, WCSA was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of WCSA. WCSA, which is part of Ohio's education program, is independent of any school district. WCSA may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCSA.

WCSA was approved for operation under a contract dated February 15, 2007 between the Governing Authority of WCSA and Buckeye Community Hope Foundation (BCHF) (the Sponsor). The contract has been amended to extend the original contract term until June 30, 2020. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XIII for further discussion of the sponsor services.

WCSA entered into an agreement with Constellation Schools (CS) to provide legal, financial, business and educational management services for the fiscal year. The agreement can be renewed annually. See Note XIII for further discussion of this management agreement.

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's instructional facility staffed by 42 certificated full time teaching personnel and 8 support staff who provide services to 367 students. During 2017, the board members for WCSA also serve as the board for Constellation Schools: Puritas Community Middle, Constellation Schools: Collinwood Village Academy and Constellation Schools: Stockyard Community Middle.

**II. Summary of Significant Accounting Policies**

The financial statements of WCSA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of WCSA's accounting policies are described below.

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**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, deferred outflow of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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.

**3. Implementation of New Accounting Principles**

For the fiscal year ended June 30, 2017, WCSA has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

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GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of WCSA.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of WCSA.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of WCSA.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in WCSA's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

**4. Restatement of Net Position**

Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the net pension liability, deferred outflows of resources, deferred inflows of resources and the related pension expense should be allocated to each of the schools. This allocation had the following effect on beginning net position:

Previously Reported Net Position	\$ (800,407)
Adjustments:	
Deferred Outflows - Pension	51,301
Net Pension Liability	(406,778)
Deferred Inflows - Pension	<u>(33,716)</u>
Restated Net Position, July 1, 2016	<u>\$ (1,189,600)</u>

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**5. Cash**

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

**6. 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.

**7. Due From Other Governments**

Monies due WCSA for the year ended June 30, 2017 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

**8. Capital Assets and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$1,000 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 except for land and construction in progress. Depreciation of buildings, building improvements, technology and software, furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets or less. Estimated useful lives are as follows:

<b>Capital Asset Classification</b>	<b>Years</b>
Building	40
Building Improvements	10 to 40
Technology and Software	3 to 5
Furniture and Equipment	10

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**9. Intergovernmental Revenues**

WCSA currently participates in the State Foundation Program, the State Poverty Based Assistance Program and Casino Tax Distribution. 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. Amounts awarded under the above named programs for the 2017 school year totaled \$3,731,089.

**10. Private Grants and Contributions**

WCSA received grants and contributions from private sources to support the school's programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2017 school year totaled \$20.

**11. 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.

**12. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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**13. 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.

**14. Unearned Revenue**

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

**15. Deferred Outflows of Resources and Deferred Inflows of Resources**

A deferred outflow of resources is a consumption of assets by WCSA that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflow of resources related to pension is described in Note X.

A deferred inflow of resources is an acquisition of assets by WCSA that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The deferred inflow of resources related to pension is described in Note X.

**III. Deposits**

At fiscal year end June 30, 2017, the carrying amount of WCSA's deposits totaled \$1,137,830 and its bank balance was \$1,150,855. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2017, \$900,855 of the bank balance was exposed to custodial risk as discussed below, while \$250,000 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.

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**IV. Capital Assets**

A summary of capital assets at June 30, 2017 follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Capital Assets Not Being Depreciated:				
Land	\$106,780	\$0	\$0	\$106,780
Construction in Process	0	8,345	0	8,345
Total Capital Assets Not Being Depreciated:	106,780	8,345	0	115,125
Capital Assets Being Depreciated:				
Building	899,737	0	0	899,737
Building Improvements	1,277,168	61,489	0	1,338,657
Technology and Software	97,779	0	0	97,779
Furniture and Equipment	283,293	2,797	0	286,090
Total Capital Assets Being Depreciated	2,557,977	64,286	0	2,622,263
Less Accumulated Depreciation:				
Building	(121,182)	(22,494)	0	(143,676)
Building Improvements	(64,043)	(39,555)	0	(103,598)
Technology and Software	(45,623)	(23,114)	0	(68,737)
Furniture and Equipment	(180,821)	(28,492)	0	(209,313)
Total Accumulated Depreciation	(411,669)	(113,655)	0	(525,324)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	2,146,308	(49,369)	0	2,096,939
Total Capital Assets, Net of Accumulated Depreciation	\$2,253,088	(\$41,024)	\$0	\$2,212,064

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**V. Purchased Services**

Purchased Services include the following:

Instruction	\$127,199
Pupil Support Services	28,505
Staff Development & Support	120,087
Administrative	495,394
Occupancy Costs	154,407
Transportation	15,287
Food Services	<u>104,699</u>
 Total Purchased Services	 <u><u>\$1,045,578</u></u>

**VI. Loan Payable**

During fiscal year 2015, WCSA secured a four-year loan with CF Bank to purchase \$30,513 of technology equipment (accumulated depreciation as of June 30, 2017 is \$18,753). The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on January 15, 2019. Equipment purchased with loan proceeds has been capitalized. Principal payments during fiscal year 2017 totaled \$7,594 and interest paid totaled \$681. Future minimum loan payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2018	\$7,907	\$368	\$8,275
2019	<u>4,763</u>	<u>64</u>	<u>4,827</u>
Total	<u><u>\$12,670</u></u>	<u><u>\$432</u></u>	<u><u>\$13,102</u></u>

**VII. SS. Philip & James Parish Property Purchase**

On February 11, 2011, WCSA purchased all of the property and buildings of SS. Philip & James Parish from the Diocese of Cleveland, which includes the school building, located at 3727 Bosworth Road, Cleveland. The purchase price of \$1,000,000, along with other purchase costs totaling \$6,517, have been capitalized and will be depreciated over a forty-year period. All operations of the school are located at this site.

**VIII. Mortgage Notes Payable**

On February 11, 2011, WCSA entered into two mortgage agreements relating to the purchase of the property at 3727 Bosworth Road, Cleveland (see note VII). A first position mortgage note in the amount of \$750,000 was held by PNC Bank, National

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Association (PNC Bank). The note is for a term of two years, based on a thirty-year amortization schedule, with an interest rate of 4.748% per annum and a balloon payment due at the end of the term in fiscal year 2013. The loan which had been renegotiated to a rate of 3.76% per annum and a due date of January 28, 2015 was extended until January 1, 2020.

In September 2015 the mortgage loan was refinanced through U.S. Bank with additional funds borrowed to renovate and remodel facilities owned by WCSA. A first position mortgage note in the amount of \$1,211,000 is held by U.S. Bank. The note is for a term of five years, based on a fifteen-year amortization schedule, with an interest rate of 4.35% per annum and a balloon payment due at the end of the term in fiscal year 2021. Under terms of the loan agreement WCSA is required to meet financial information and reporting requirements as well as financial covenants. All requirements for the current fiscal year have been met.

A second position mortgage note in the amount of \$200,000 was held by the Roman Catholic Diocese of Cleveland (Diocese) and was subordinate to the first mortgage. The note was for a term of four years, based on a fifteen-year amortization schedule and had an interest rate of 8.00 percent per annum. A final payment in the form of a balloon payment was made during fiscal year 2015.

During fiscal year 2017 principal was reduced by \$59,741 and Interest expense totaled \$50,317. As of June 30, 2017 outstanding principal balance is \$1,108,206 and Interest payable totals \$1,251. Principal and interest due on the outstanding mortgage note is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$62,431	\$47,627	\$110,058
2019	65,241	44,817	110,058
2020	68,063	41,995	110,058
2021	<u>912,471</u>	<u>10,078</u>	<u>922,549</u>
Total	<u>\$1,108,206</u>	<u>\$144,517</u>	<u>\$1,252,723</u>

**IX. 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 2017, WCSA contracted with Traveler's Property Casualty Company of America for property insurance, The Hanover Insurance Company for liability insurance and errors and omissions insurance and Allamerica Financial Benefit Insurance Company for Automobile insurance.

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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, Cyber Liability and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

**2. Workers' Compensation**

WCSA makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been eight claims filed by WCSA employees with the Ohio Worker's Compensation System between January 1, 2012 and June 30, 2017. The total payments made for these claims have been \$8,723. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of WCSA as June 30, 2017.

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

WCSA 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 WCSA for the fiscal year is \$264,635.

**X. Defined Benefit Pension Plans**

**1. Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents WCSA's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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Ohio Revised Code limits WCSA’s obligation for this liability to annually required payments. WCSA cannot control benefit terms or the manner in which pensions are financed; however, WCSA does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in due to other governments on the accrual basis of accounting.

**2. Plan Description - School Employees Retirement System (SERS)**

Plan Description – WCSA non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and WCSA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

WCSA's contractually required contribution to SERS was \$44,116 for fiscal year 2017.

**3. Plan Description - State Teachers Retirement System (STRS)**

Plan Description – WCSA licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until

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August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. WCSA was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

WCSA's contractually required contribution to STRS was \$208,316 for fiscal year 2017.

**4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June, 30 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. WCSA's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 4,295,702	\$ 667,323	\$ 4,963,025
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01283333%	0.00911758%	
Prior Measurement Date	0.01129143%	0.00759730%	
Change in Proportionate Share	0.00154190%	0.00152028%	
Pension Expense	\$ 415,731	\$ 104,350	\$ 520,081

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in WCSA's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five-year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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At June 30, 2017, WCSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 173,567	\$ 9,001	\$ 182,568
Net Difference between Projected and Actual Earnings on Pension Plan Investments	356,658	55,044	411,702
Changes of Assumptions	0	44,547	44,547
Changes in Proportion and Differences between WCSA Contributions and Proportionate Share of Contributions	392,127	88,647	480,774
WCSA Contributions Subsequent to the Measurement Date	<u>208,316</u>	<u>44,116</u>	<u>252,432</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 1,130,668</u></b>	<b><u>\$ 241,355</u></b>	<b><u>\$ 1,372,023</u></b>
<b>Deferred Inflows of Resources</b>			
Changes in Proportion and Differences between WCSA Contributions and Proportionate Share of Contributions	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\$252,432 reported as deferred outflows of resources related to pension resulting from WCSA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 185,310	\$ 62,269	\$ 247,579
2019	185,310	62,228	247,538
2020	322,171	56,919	379,090
2021	<u>229,561</u>	<u>15,823</u>	<u>245,384</u>
	<b><u>\$ 922,352</u></b>	<b><u>\$ 197,239</u></b>	<b><u>\$ 1,119,591</u></b>

**5. Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The

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long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	100.00 %	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of WCSA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents WCSA's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
WCSA's Proportionate Share of the Net Pension Liability	\$ 883,494	\$ 667,323	\$ 486,379

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**6. Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on the fifth anniversary of the retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	<u>7.61 %</u>

\*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**Sensitivity of WCSA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents WCSA's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what WCSA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
WCSA's Proportionate Share of the Net Pension Liability	\$ 5,708,639	\$ 4,295,702	\$ 3,103,807

**Changes Between Measurement Date and Report Date:** In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to WCSA's net pension liability is expected to be significant.

**XI. Post-Employment Benefits**

**1. School Employees Retirement System**

Health Care Plan Description - WCSA contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional

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indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, WCSA's surcharge obligation was \$2,767.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. WCSA's contributions for health care for the fiscal year ended June 30, 2015, was \$3,081. The full amount has been contributed for fiscal year 2015.

**2. State Teachers Retirement System**

Plan Description – WCSA participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is

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included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, WCSA did not contribute to health care in the last three fiscal years.

**XII. 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, 2017.

**2. School Foundation**

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on WCSA for fiscal year 2017.

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As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of WCSA.

In addition, WCSA's contracts with their Sponsor, Buckeye Community Hope Foundation and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by WCSA from the State (See Note XIII). As discussed above, FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to fee calculation changes necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, WCSA.

**XIII. Sponsorship and Management Agreements**

WCSA entered into an agreement with Buckeye Community Hope Foundation to provide sponsorship and oversight services as required by law. The agreement is effective September 18, 2005 and was amended to continue through June 30, 2020. Sponsorship fees are calculated as 3% of the Fiscal Year 2017 Foundation payments received by WCSA, from the State of Ohio. The total amount due from WCSA for fiscal year 2017 was \$90,776 all of which was paid prior to June 30, 2017.

WCSA entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2017. The agreement was for a period of one year, effective July 1, 2016. Management fees are calculated as 6.25% of the Fiscal Year 2017 Foundation payment received by WCSA from the State of Ohio plus a fixed fee of \$180,000. The total amount due from WCSA for the fiscal year ending June 30, 2017 was \$359,828 all of which was paid prior to June 30, 2017.

**XIV. Subsequent Events**

On May 18, 2017 the board of WCSA voted to open an annex site located at 12406 Buckingham Avenue in Cleveland, Ohio. A lease was negotiated with the landlord, Our Lady of Peace Parish in the Diocese of Cleveland. The annex site opened on September 5, 2017 using the name Constellation Schools: Shaker Academy. A total of 41 students in grades Kindergarten through 2 are enrolled at the site.

**Constellation Schools: Westside Community School of the Arts**  
**Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of the School's Proportionate Share of the Net Pension Liability*  
*Last Four Fiscal Years (1)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>State Teachers Retirement System (STRS)</b>				
WCSA's Proportion of the Net Pension Liability	0.01283333%	0.01129143%	0.01105865%	0.01105865%
WCSA's Proportionate Share of the Net Pension Liability	\$ 4,295,702	\$ 3,120,621	\$ 2,689,846	\$ 3,204,127
WCSA's Covered Payroll (2)	\$ 1,370,943	\$ 1,093,457	\$ 1,015,300	\$ 1,025,046
WCSA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	313.34%	285.39%	264.93%	312.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
<b>School Employees Retirement System (SERS)</b>				
WCSA's Proportion of the Net Pension Liability	0.00911758%	0.00759730%	0.00678089%	0.00678089%
WCSA's Proportionate Share of the Net Pension Liability	\$ 667,323	\$ 433,509	\$ 343,177	\$ 403,238
WCSA's Covered Payroll (2)	\$ 278,771	\$ 133,718	\$ 119,055	\$ 95,029
WCSA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	239.38%	324.20%	288.25%	424.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

(2) Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the payroll related to these employees should be allocated to each of the schools. Fiscal year 2017 and 2016 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

**Notes:**

**School Employees Retirement System (SERS)**

*Changes of Benefit Terms:* None.

*Changes of Assumptions:* Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

**Constellation Schools: Westside Community School of the Arts**  
**Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of School Contributions*  
*Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>State Teachers Retirement System (STRS)</b>				
Contractually Required Contribution	\$208,316	\$191,932	\$153,084	\$131,989
Contributions in Relation to the Contractually Required Contribution	<u>(208,316)</u>	<u>(191,932)</u>	<u>(153,084)</u>	<u>(131,989)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
WCSA's Covered Payroll	\$1,487,971	\$1,370,943	\$1,093,457	\$1,015,300
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
<b>School Employees Retirement System (SERS)</b>				
Contractually Required Contribution	\$44,116	\$39,028	\$17,624	\$16,501
Contributions in Relation to the Contractually Required Contribution	<u>(44,116)</u>	<u>(39,028)</u>	<u>(17,624)</u>	<u>(16,501)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
WCSA's Covered Payroll	\$315,114	\$278,771	\$133,718	\$119,055
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

Note - Certain Constellation Schools LLC employees are reported under one employer code with the state retirement systems. However, these employees provide services to all schools managed by Constellation Schools LLC. Therefore, it has been determined the contributions related to these employees should be allocated to each of the schools. Fiscal year 2017 and 2016 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$133,256	\$122,002	\$102,188	\$79,449	\$53,665	\$35,984
<u>(133,256)</u>	<u>(122,002)</u>	<u>(102,188)</u>	<u>(79,449)</u>	<u>(53,665)</u>	<u>(35,984)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,025,046	\$938,477	\$786,062	\$611,146	\$412,808	\$276,800
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$13,152	\$12,891	\$11,068	\$7,667	\$5,832	\$5,125
<u>(13,152)</u>	<u>(12,891)</u>	<u>(11,068)</u>	<u>(7,667)</u>	<u>(5,832)</u>	<u>(5,125)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$95,029	\$95,844	\$88,051	\$56,625	\$59,268	\$52,189
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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November 26, 2017

To the Board of Trustees  
Constellation Schools: Westside Community School of the Arts  
Cuyahoga County, Ohio  
3727 Bosworth Road  
Cleveland, OH 44111

**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, in accordance with the 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, the financial statements of the Constellation Schools: Westside Community School of the Arts, Cuyahoga County, Ohio (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 26, 2017, wherein we noted the School restated net position balance to account for the reallocation of certain management company employees reported under one employer code within the state retirement systems, and their effect on the net pension liability, deferred outflows of resources and deferred inflows of resources.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hea & Associates, Inc.*

Cambridge, Ohio



# Dave Yost • Auditor of State

**WESTSIDE COMMUNITY SCHOOL OF THE ARTS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 4, 2018**