



OHIO AUDITOR OF STATE  
**KEITH FABER**





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

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# OHIO AUDITOR OF STATE KEITH FABER



Lausche Building, 12<sup>th</sup> Floor  
615 Superior Avenue, NW  
Cleveland, Ohio 44113-1801  
(216) 787-3665 or (800) 626-2297  
NortheastRegion@ohioauditor.gov

## INDEPENDENT AUDITOR'S REPORT

Constellation Schools: Westpark Community Elementary  
Cuyahoga County  
16210 Lorain Road  
Cleveland, OH 44111

5730 Broadview Rd  
Parma, OH 44134

To the Board of Directors:

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

We have audited the accompanying financial statements of Constellation Schools: Westpark Community Elementary, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2019, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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Efficient • Effective • Transparent

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Constellation Schools: Westpark Community Elementary, Cuyahoga County, Ohio as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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.



Keith Faber  
Auditor of State

Columbus, Ohio

November 20, 2019

# **CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**

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

For the Year Ended June 30, 2019

(Unaudited)

The discussion and analysis of Constellation Schools: Westpark Community Elementary (WCE) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the financial performance of WCE as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of WCE.

### **Financial Highlights**

Key financial highlights for 2019 include the following:

- In total, net position increased \$82,402, which represents a 4.27% increase from 2018. Increases in foundation and poverty based assistance revenues, with the change in net pension and OPEB and deferred inflow of resources combined create this increase.
- Total assets and deferred outflow of resources decreased \$389,793, which represents a 4.30% decrease from 2018. This is due to decreases in cash, and deferred outflow of resources, and capital improvements offset by increases in Net OPEB Assets.
- Liabilities and deferred inflow of resources decreased \$472,197, which represents a 4.29% decrease from 2018. Decreases in long term liabilities for bonds payable and equipment leases payable, and net pension and OPEB liability during the year offset increases in payroll payable and deferred inflow of resources.
- Operating revenues increased by \$145,489 which represents a 5.19% increase from 2018. This is a direct result of an increase in state support due to an increase in enrollment from 2018 during 2019.
- Expenses increased by \$1,014,214 which represents a 44.72% increase from 2018. Operating expense increases for salaries and fringe benefits, purchased services, instructional supplies, depreciation and miscellaneous expenses, plus the change in net pension and OPEB liability/asset offset decreases in capital outlay.
- Non-operating revenues decreased by \$16,154, which represents a 3.75% decrease from 2018. This decrease is due to federal grant program decreases offset by an increase in interest income.

### **Using this Financial Report**

This report consists of four parts: Management's Discussion and Analysis, the Financial Statements, Notes to the Financial Statements and Required Supplementary 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: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

### Statement of Net Position

The Statement of Net Position looks at how well WCE has performed financially through June 30, 2019. This statement includes all of the assets, deferred outflow of resources, liabilities, deferred inflow 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, 2019 and 2018 for WCE.

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
<b>Assets and Deferred Outflow of Resources</b>				
Cash	\$1,426,788	\$1,529,879	(\$103,091)	-6.74%
Other Current Assets	353,742	383,548	(29,806)	-7.77%
Net OPEB Assets	135,571	0	135,571	100.00%
Non-Current Assets	729,873	714,091	15,782	2.21%
Capital Assets, Net	4,647,069	4,790,136	(143,067)	-2.99%
Deferred Outflow of Resources	<u>1,385,880</u>	<u>1,651,062</u>	<u>(265,182)</u>	<u>-16.06%</u>
Total Assets and Deferred Outflow of Resources	<u>8,678,923</u>	<u>9,068,716</u>	<u>(389,793)</u>	<u>-4.30%</u>
<b>Liabilities and Deferred Inflow of Resources</b>				
Current Liabilities	540,573	516,322	24,251	4.70%
Long-Term Liabilities	9,304,867	9,968,276	(663,409)	-6.66%
Deferred Inflow of Resources	<u>679,840</u>	<u>512,879</u>	<u>166,961</u>	<u>32.55%</u>
Total Liabilities and Deferred Inflow of Resources	<u>10,525,280</u>	<u>10,997,477</u>	<u>(472,197)</u>	<u>-4.29%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	(1,237,193)	(683,609)	(553,584)	-80.98%
Net Restricted for Debt Purposes	450,315	405,432	44,883	11.07%
Unrestricted	<u>(1,059,479)</u>	<u>(1,650,584)</u>	<u>591,105</u>	<u>35.81%</u>
Total Net Position	<u>(\$1,846,357)</u>	<u>(\$1,928,761)</u>	<u>\$82,404</u>	<u>4.27%</u>



# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

### 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, 2019. The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for WCE for fiscal years ended June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
<b>Revenues</b>				
Foundation and Poverty Based Assistance Revenues	\$2,482,186	\$2,355,803	\$126,383	5.36%
Casio Tax Distributions	16,338	15,584	754	4.84%
Other Operating Revenues	451,643	433,291	18,352	4.24%
Total Operating Revenues	<u>2,950,167</u>	<u>2,804,678</u>	<u>145,489</u>	<u>5.19%</u>
Interest Income	10,058	4,183	5,875	140.45%
Federal and State Grants	404,358	426,387	(22,029)	-5.17%
Total Non-Operating Revenues	<u>414,416</u>	<u>430,570</u>	<u>(16,154)</u>	<u>-3.75%</u>
Total Revenues	<u>3,364,583</u>	<u>3,235,248</u>	<u>129,335</u>	<u>4.00%</u>
<b>Expenses</b>				
Salaries	1,379,166	1,267,064	112,102	8.85%
Fringe Benefits	449,320	406,779	42,541	10.46%
Change in Net Pension and OPEB Liability/Asset	(288,200)	(1,107,742)	819,542	73.98%
Purchased Services	923,441	879,977	43,464	4.94%
Materials and Supplies	126,487	123,210	3,277	2.66%
Capital Outlay	565	10,174	(9,609)	-94.45%
Depreciation	165,802	163,190	2,612	1.60%
Other Expenses	525,600	525,315	285	0.05%
Total Expenses	<u>3,282,181</u>	<u>2,267,967</u>	<u>1,014,214</u>	<u>44.72%</u>
Changes in Net Position	<u>82,402</u>	<u>967,281</u>	<u>(884,879)</u>	<u>-91.48%</u>
Net Position: Beginning of the Year	<u>(1,928,761)</u>	<u>(2,896,042)</u>	<u>967,281</u>	<u>33.40%</u>
Net Position: End of Year	<u>(\$1,846,359)</u>	<u>(\$1,928,761)</u>	<u>\$82,402</u>	<u>4.27%</u>

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

The most significant changes in revenues from 2018 to 2019 are increases of \$126,383 in foundation and poverty based assistance revenues and \$18,352 in other operating revenues, due in part to increases in services to other schools. Overall expenses increased from 2018 to 2019 by a total of \$1,014,214. Salaries and Fringe Benefits decreased \$154,553 due to regular salary increases and addition of staff. The change in Net Pension and OPEB Asset/Liability is due to recognition of pension and OPEB liabilities per GASB 68 and 75 totaled \$819,542. Purchased services increased \$43,464 due to increased costs for food service and support services. Materials and Supplies increased \$3,277 due to increased purchases of instructional workbooks. Capital Outlay decreased \$9,609 due to decreases in building improvements which were capitalized and a decrease in classroom technology. Depreciation increased \$2,612 and Other Expenses increased \$285 due to interest expenses, other activities and miscellaneous expenses.

### Capital Assets

As of June 30, 2019, WCE had \$4,647,069 invested in land, construction in process, building, building improvements, technology and software, and furniture and equipment, net of depreciation. This is a \$143,067 decrease from June 30, 2018. The following schedule provides a summary of Capital Assets as of June 30, 2019 and 2018 for WCE.

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
<b>Capital Assets (net of depreciation)</b>				
Land	\$322,900	\$322,900	\$0	0.00%
Construction in Process	0	9,750	(9,750)	-100.00%
Building	477,208	496,752	(19,544)	-3.93%
Building Improvements	3,770,753	3,876,234	(105,481)	-2.72%
Technology and Software	0	3,213	(3,213)	-100.00%
Furniture and Equipment	76,208	81,287	(5,079)	-6.25%
Net Capital Assets	<u>\$4,647,069</u>	<u>\$4,790,136</u>	<u>(\$143,067)</u>	<u>-2.99%</u>

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

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

## Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

### **Bond Debt Service**

On April 10, 2014 WCE shared in the closing of a multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, along with escrow and reserve deposits from a 2008 bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due. The CCCPA bond refinance allowed WCE to reacquire title to the land and building in which it operates, to improve ongoing financial reporting requirements and to complete renovation projects at WCE. WCE provided a mortgage on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, varies from a rate of 5.00% per annum to 7.75%. The outstanding principal balance, net of unamortized original bond discount, as of June 30, 2019 is \$6,628,733. For more information on debt service see the Notes to the Financial Statements.

### **Equipment Financing**

In February of 2014 WCE entered into a group leasing agreement with Celtic Leasing to lease technology equipment. The lease, which closed March 1, 2015 with a balance for WCE of \$27,510, has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term was a total of 44 months and carried an interest rate of 1.72% per annum. The lease expired in November 2018.

### **Net Pension and Other Post-Employment Benefits (OPEB) Liabilities**

The net pension and OPEB liability is the second largest liability reported by WCE at June 30, 2019 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* and GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to pension and other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of WCE's actual financial condition by adding deferred inflow related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflow related to pension and OPEB and net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB asset/liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension asset/liability and the net OPEB liability to equal WCE's proportionate share of each plan's collective:

## CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

### Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 received the benefit of the exchange. However, WCE is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, WCE's statements include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflow/outflow.

# **CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**

Management's Discussion and Analysis

For the Year Ended June 30, 2019

(Unaudited)

## **Current Financial Issues**

WCE opened in the fall of 2001. The school has grown from 72 students, eight teaching staff members and expenses of \$517,314 to a total of 310 students, 32 teaching staff members and expenses of \$3,282,179. On January 2, 2006, grades 5 through 8 were split off from WCE to form Westpark Community Middle School providing more flexibility in the curriculum for each student. The school purchased their own educational facility and has constructed an addition to accommodate increasing enrollment and allow both schools to cohabit the same property.

The Board of Directors, school management and school staff continue to work diligently to ensure that WCE 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.

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

This financial report is designed to provide our constituents with a general overview of the finances for WCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Caroline Zito, Treasurer, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at [zito.caroline@constellationschools.com](mailto:zito.caroline@constellationschools.com); by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Westpark Community Elementary**  
**Cuyahoga County, Ohio**  
**Statement of Net Position**  
**As of June 30, 2019**

**Assets:**

**Current Assets:**

Cash	\$1,426,788
Accounts Receivable	\$3,750
Prepaid Expenses	2,690
Due from Other Governments	45,230
Escrow Accounts	302,072
<i>Total Current Assets</i>	<u>1,780,530</u>

**Non-Current Assets:**

Security Deposit	27,855
Bond Reserve Accounts	702,018
Net OPEB Asset	135,571
Non-Depreciable Capital Assets	322,900
Capital Assets (Net of Accumulated Depreciation)	4,324,169
<i>Total Non-Current Assets</i>	<u>5,512,513</u>
<i>Total Assets</i>	<u>7,293,043</u>

**Deferred Outflow of Resources:**

Unamortized Deferred Charges on Bond Refinancing	636,879
Pension and OPEB (STRS & SERS)	749,001
<i>Total Deferred Outflow of Resources</i>	<u>1,385,880</u>
<i>Total Assets and Deferred Outflow of Resources</i>	<u>8,678,923</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	36,832
Interest Payable	223,295
Payroll Payable	133,211
Unearned Revenue	6,010
Due to Other Governments	27,531
Capital Lease Bond Notes Payable	113,694
<i>Total Current Liabilities</i>	<u>540,573</u>

**Long Term Liabilities:**

Capital Lease Bond Notes Payable	6,515,039
Net Pension and OPEB Liability	2,789,828
<i>Total Long Term Liabilities</i>	<u>9,304,867</u>
<i>Total Liabilities</i>	<u>9,845,440</u>

**Deferred Inflow of Resources:**

Pension and OPEB (STRS & SERS)	679,840
<i>Total Deferred Inflow of Resources</i>	<u>679,840</u>
<i>Total Liabilities and Deferred Inflow of Resources</i>	<u>10,525,280</u>

**Net Position:**

Net Investment in Capital Assets	(1,237,193)
Net Restricted for Debt Purposes	450,315
Unrestricted	(1,059,479)
<i>Total Net Position</i>	<u>(\$1,846,357)</u>

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

**Constellation Schools: Westpark Community Elementary**  
**Cuyahoga County, Ohio**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2019**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$2,482,186
Casino Tax Distributions	16,338
Other Operating Revenues	451,643
<i>Total Operating Revenues</i>	<u>2,950,167</u>

**Operating Expenses:**

Salaries	1,379,166
Fringe Benefits	449,320
Change in Net Pension and OPEB Liability/Asset	(288,200)
Purchased Services	923,441
Materials and Supplies	126,487
Capital Outlay	565
Depreciation	165,802
Other Operating Expenses	50,328
<i>Total Operating Expenses</i>	<u>2,806,909</u>

Operating Income	<u>143,258</u>
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**Non-Operating Revenues & Expenses:**

Interest Income	10,058
Interest Expense	(475,272)
Federal and State Grants	404,358
<i>Total Non-Operating Revenues &amp; Expenses</i>	<u>(60,856)</u>

Change in Net Position	<u>82,402</u>
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Net Position at Beginning of the Year	<u>(1,928,761)</u>
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Net Position at End of Year	<u><u>(\$1,846,359)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.



**Constellation Schools: Westpark Community Elementary**  
**Cuyahoga County, Ohio**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2019**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$2,498,524
Cash Payments to Suppliers for Goods and Services	(1,537,210)
Cash Payments to Employees for Services	(1,367,853)
Other Operating Revenues	450,319
Net Cash Provided by Operating Activities	43,780

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	423,983
Net Cash Provided by Noncapital Financing Activities	423,983

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

Payments for Capital Acquisitions	(22,735)
(Increase) in Escrow Funds	(14,752)
(Increase) in Bond Reserve Accounts	(15,782)
Bond Principal Payments	(81,860)
Bond Interest Payments	(442,555)
Equipment Lease Principal Payments	(3,212)
Equipment Lease Interest Payments	(16)
Net Cash Used for Capital and Related Financing Activities	(580,912)

**Cash Flows from Investing Activities**

Interest	10,058
Net Cash Provided by Investing Activities	10,058

Net Decrease in Cash	(103,091)
Cash at Beginning of Year	1,529,879
Cash at End of Year	\$1,426,788

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

**(Continued)**

**Constellation Schools: Westpark Community Elementary**  
**Cuyahoga County, Ohio**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2019**  
**(Continued)**

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

Operating Income	\$143,258
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**Adjustments to Reconcile Operating Income to  
Net Cash Provided by Operating Activities:**

Depreciation	165,802
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Changes in Assets, Liabilities, Deferred Inflow of Resources  
and Deferred Outflow of Resources:

(Increase) in Accounts Receivable	(379)
Decrease in Prepaid Expenses	18,563
Decrease in Due from Other Governments	6,749
(Increase) in OPEB Asset	(135,571)
Decrease in Deferred Outflow - Pensions and OPEB	231,662
(Decrease) in Accounts Payable	(31,470)
Increase in Payroll Payable	11,313
Increase in Due to Other Governments	19,089
(Decrease) in Unearned Revenue	(945)
(Decrease) in Net Pension and OPEB Liability	(551,252)
Increase in Deferred Inflow - Pensions and OPEB	166,961

Total Adjustments	(99,478)
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Net Cash Provided by Operating Activities	\$43,780
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**CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY**  
**- 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: Westpark Community Elementary (WCE) is a nonprofit corporation established on August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On August 31, 2001, WCE received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of WCE. WCE, which is part of Ohio's education program, is independent of any school district. WCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCE.

WCE was approved for operation as Westpark Community School under a contract between the Governing Authority (Board) of WCE and the Ohio Department of Education as the sponsor for a period of five years commencing July 1, 2001. On October 16, 2003 Lucas County Educational Service Center (LCESC) replaced the Ohio Department of Education. The contract with LCESC, now known as ESC of Lake Erie West (ESCLEW) has been renewed with a current expiration date of June 30, 2022. Under the terms of the contract ESCLEW will provide sponsorship services for a fee. See Note XV for further discussion of the sponsor services.

WCE entered into an agreement with Constellation Schools (CS) to provide legal, financial, business and educational management services for fiscal year 2019. The agreement was for a period of one year, effective July 1, 2018 and can be renewed annually. See Note XV for further discussion of the management agreement.

WCE operates under a five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls WCE's instructional facility staffed by 32 certificated full time personnel and 6 support staff that provided services to 310 students. During 2019, the board members for WCE also serve as the board for Constellation Schools: Puritas Community Elementary; Constellation Schools: Madison Community Elementary and Constellation Schools: Stockyard Community Elementary.

**II. Summary of Significant Accounting Policies**

The financial statements of WCE 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 WCE'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 inflow of resources are included on the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. WCE prepares financial statements using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which WCE receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which WCE must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to WCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

**3. Implementation of New Accounting Principles**

For the fiscal year ended June 30, 2019, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School.

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GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the School's fiscal year 2019 financial statements; however, there was no effect on beginning net position.

**4. Cash**

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

**5. Budgetary Process**

Pursuant to Ohio Revised Code Chapter 5705.391 WCE prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. WCE will from time to time adopt budget revisions as necessary.

**6. Due From Other Governments**

Monies due to WCE for the year ended June 30, 2019 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.

**7. 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 \$2,500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated except for land and construction in process. Depreciation of buildings, building improvements, technology and software, and 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 & Software	3 to 5
Furniture and Equipment	10

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**8. Intergovernmental Revenues**

WCE currently participates in the State Foundation Program, the State Poverty Based Assistance Program, Community Schools Facilities Allocation 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. WCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2019 school year totaled \$2,902,882.

**9. Private Grants and Contributions**

WCE received grants and contributions from private sources to support the schools' programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. WCE did not receive any private grants or contributions for the 2019 fiscal year.

**10. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar; therefore, WCE does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum of one hundred twenty days. WCE will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

**11. Pensions and Other Post-Employment Benefits (OPEB)**

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

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**12. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the financial statements. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations. However, claims and judgments, compensated absences that will be paid from available funds are reported as a liability in the financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

**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 WCE consists of enrollment application fees received in the current year which pertains to the next school year.

**15. Deferred Inflow of Resources and Deferred Outflow of Resources**

A deferred outflow of resources is a consumption of assets by WCE 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 and OPEB is described in Note XII and Note XIII.

A deferred inflow of resources is an acquisition of assets by WCE 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 and OPEB is described in Note XII and Note XIII.

When utilizing the accrual basis of accounting, unamortized deferred charges on debt refinancing are reported as a deferred outflow of resources. Deferred charges on refunding result from the difference in the carrying value of refunded debt to its reacquisition price. This amount is deferred and amortized over the shorter period of the life of the refunded debt or of the refunding debt.

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**16. Net Position**

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflow of resources and deferred inflow of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by WCE or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

WCE applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**17. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the School. For the School, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**III. Deposits**

At fiscal year end June 30, 2019, the carrying amount of WCE's deposits totaled \$1,426,788 and its bank balance was \$1,429,655. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2019, \$1,179,655 of the bank balance was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Escrow and reserve accounts held in trust on behalf of WCE and the Cleveland Cuyahoga County Port Authority totaled \$1,004,090 at fiscal year end June 30, 2019. The escrow accounts are invested in the US Treasury and are 100% backed by the full faith and credit of the United States government. Reserve accounts are invested in U.S. Bank Open Commercial Paper instruments.

WCE has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of



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State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred and two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred and five percent.

**IV. Purchased Services**

Purchased Services include the following:

Instruction	\$85,929
Pupil Support Services	54,561
Staff Development & Support	62,911
Administrative	459,041
Occupancy Costs	164,699
Food Services	96,300
Total Purchased Services	<u>\$923,441</u>

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**V. Capital Assets**

A summary of capital assets at June 30, 2019 follows:

	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019
Capital Assets Not Being Depreciated:				
Land	\$322,900	0	0	\$322,900
Construction in Process	9,750	0	(9,750)	0
Total Capital Assets Not Being Depreciated:	332,650	0	(9,750)	322,900
Capital Assets Being Depreciated:				
Building	781,774	0	0	781,774
Building Improvements	4,935,546	27,881	0	4,963,427
Technology and Software	61,205	0	0	61,205
Furniture and Equipment	93,552	4,604	0	98,156
Total Capital Assets Being Depreciated	5,872,077	32,485	0	5,904,562
Less Accumulated Depreciation:				
Building	(285,022)	(19,544)	0	(304,566)
Building Improvements	(1,059,312)	(133,362)	0	(1,192,674)
Technology and Software	(57,992)	(3,213)	0	(61,205)
Furniture and Equipment	(12,265)	(9,683)	0	(21,948)
Total Accumulated Depreciation:	(1,414,591)	(165,802)	0	(1,580,393)
Capital Assets Being Depreciated, Net of Accumulated Depreciation	4,457,486	(133,317)	0	4,324,169
Total Capital Assets, Net of Accumulated Depreciation	\$4,790,136	(\$133,317)	(\$9,750)	\$4,647,069

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**VI. Capital Equipment Lease Payable**

During fiscal year 2015, WCE entered into a 44-month lease for technology equipment with Celtic Leasing. This lease meets the criteria of capital leases as defined by accounting standards, which defines a capital lease generally as one which transfers the benefits and risks of ownership of the lessee.

Assets of technology equipment totaling \$27,510 have been capitalized (accumulated depreciation as of June 30, 2019 is \$27,510). This amount represents the actual purchase price of the equipment and is the same as the net present value of the minimum lease payments at the time of acquisition. Principal payments during fiscal year 2019 totaled \$3,212 and interest paid totaled \$16. The lease expired in 2019.

**VII. Washington School Purchase**

On November 12, 2003, WCE purchased the former Washington School building it occupied at 16210 Lorain Avenue, Cleveland. The purchase price of \$1,100,000 and other purchase costs totaling \$4,674 have been capitalized and are being depreciated over a forty-year period. All operations of the school are located at this site.

In order to finance a multi-million dollar expansion project, WCE sold the building and land which it occupies to The Industrial Development Authority of the County of Pima (IDA) on January 23, 2008 as part of a bond financing deal. WCE leased the property from IDA under a capitalized lease arrangement. On April 10, 2014 the bond issue was refinanced and title for the property was returned to the ownership of WCE (See Note IX). The original purchase price, other purchase costs and building improvements continue to be recognized as capital assets and are being depreciated over their remaining useful life.

**VIII. Capital Lease Bond Notes Payable**

On April 10, 2014 WCE closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). Underwriters' discounts totaling \$538,825 and original bond discounts of \$163,934 were deducted from the bond proceeds at issuance. A portion of the proceeds, along with escrow and reserve deposits from a prior bond issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the prior bonds when they come due (See Note IX). In addition, \$4,953,849 of the CCCPA bonds is financing multi-million dollar building acquisition, renovation and expansion projects to meet increasing demand for enrollment for the participating schools.

The properties are managed through annual lease and sub-lease arrangements. WCE and the CCCPA secured mortgages on the land, building and improvements from US Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2015 and continuing until January 1, 2044. Interest, which is paid semi-annually on January 1 and July 1, is at the rate of 5.00% per annum for the bonds maturing between 2015 and 2017 (Series B); 5.75% for the bonds maturing between 2018 and 2024 (Series A); 6.50% for the bonds maturing between 2025

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and 2034(Series A); and 7.75% for the bonds maturing between 2035 and 2044 (Series A). The outstanding principal balance, net of unamortized bond discount, as of June 30, 2019 is \$6,628,733 and interest payable due July 1, 2019 is \$223,295. Interest paid during 2019 totaled \$442,555. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	Balance 7/1/18	Additions	Reductions	Balance 6/30/19	Due In One Year
Series A	\$6,739,800	\$0	(\$81,860)	\$6,657,940	\$113,694
Bond Discount	(30,744)	0	1,537	(29,207)	0
<b>TOTALS</b>	<b>\$6,709,056</b>	<b>\$0</b>	<b>(\$80,323)</b>	<b>\$6,628,733</b>	<b>\$113,694</b>

These lease obligations meet the criteria of a capital lease as defined by accounting standards and have been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the bond issuance continue to be recognized as capital assets and are being depreciated over their remaining useful life. WCE's share of bond issuance costs totaling \$311,854 were expensed at the time of the bond issuance. The reacquisition price exceeded the net carrying amount of the 2008 debt by \$812,858. Loss on refinancing is reported as "Unamortized Deferred Charges on Bond Refinancing" and is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. The original bond discount, which totaled \$37,277 for WCE, is being amortized through annual charges to interest for the remaining life of the 2008 bond issue. As of June 30, 2019 the unamortized balances for the cost to refinance and the bond discount are \$636,879 and \$29,207 respectively.

The Bond Indenture requires WCE to meet certain covenants. As of June 30, 2019 WCE is not in compliance with those covenants. As of June 30, 2019 three of the schools did not meet the required debt service coverage ratio (DSCR). Unless waived by the owners of a majority of the principal amount of bonds outstanding, the school will be required to hire a management consultant to make recommendations with respect to increasing revenues, decreasing expenses or other financial matters of the school which are relevant to increasing the DSCR to at least 1.00 or 1.10.

As part of the agreements for the leases, monies were deposited into several escrow accounts with US Bank, N.A. Payments for renovation and financing activities have been paid from these accounts through June 30, 2019. Lease payments were made by WCE to cover bond interest and administrative fees and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into a Debt Service Reserve Account to meet future debt service needs. Lease payments made during 2019 to fund interest, reserves and bond expenses totaled \$562,831. The balances of escrow and reserve accounts as of June 30, 2019 are as follows:

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Bond Debt Service Account	\$277,112
Expense Fund	24,960
Total Bond Escrow Accounts	<u>\$302,072</u>

Debt Service Reserve	\$564,831
Operating Reserve	137,187
Total Bond Reserve Accounts	<u>\$702,018</u>

The assets refinanced and acquired through the capital lease as of June 30, 2019 are as follows:

Land	\$322,900
Building	781,774
Building Improvements	4,307,787
Sub-Total	<u>5,412,461</u>
Accumulated Depreciation	<u>(\$1,327,125)</u>
Net Book Value	<u>\$4,085,336</u>

Future minimum lease payments for principal and interest on the face value of the Series 2014 bonds (does not include amortization of the loss to refinance the Series 2008 bonds or the bond discount on the Series 2014 bonds) under the capital lease are as follows:

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<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$113,694	\$437,848	\$551,542
2021	120,516	431,311	551,827
2022	128,475	424,381	552,856
2023	135,296	416,994	552,290
2024	143,255	409,214	552,469
2025 - 2029	866,351	1,899,650	2,766,001
2030 - 2034	1,193,790	1,578,106	2,771,896
2035 - 2039	1,651,979	1,127,211	2,779,190
2040 - 2044	<u>2,304,584</u>	<u>487,322</u>	<u>2,791,906</u>
Total	<u>\$6,657,940</u>	<u>\$7,212,037</u>	<u>\$13,869,977</u>

**IX. Refunded Capital Lease Bond Notes Payable**

On April 10, 2014 WCE closed a \$30,790,000 multi-school, multi-property bond financing arrangement with the Cleveland Cuyahoga County Port Authority (CCCPA). A portion of the proceeds, \$22,004,213, along with escrow and reserve deposits from a prior bond issue, \$5,245,493, were used to advance refund the entire Constellation Schools Series 2008 Bonds issued by The Industrial Development Authority of the County of Pima (See Note VII). The refunding portion of the issue, along with the escrow and reserve accounts from the 2008 issue, were deposited into an escrow account with US Bank, National Association for the purpose of advance refunding the bonds when they come due.

**X. Facility Lease**

WCE leases space to Constellation Schools: Westpark Community Middle (WCM) for the year. Under the terms of the lease WCM made monthly lease payments of \$19,792. WCE charged WCM a total of \$237,500 during the year. As of June 30, 2019 all lease payments were collected from WCM.

**XI. Risk Management**

**1. Property and Liability Insurance**

WCE is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2019, WCE 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.

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

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\$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**

WCE makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. There has been one claim filed by WCE employees with the Ohio Workers' Compensation System between January 1, 2014 and June 30, 2019. The total payment for this claim was \$480. In the opinion of management, this claim will not have a material adverse effect on the overall financial position of WCE as of June 30, 2019.

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

WCE 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 WCE for the fiscal year is \$225,772.

**XII. 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 WCE'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.

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

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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*. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in due to other governments.

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

Plan Description – WCE non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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.

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.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and WCE 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



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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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

WCE's contractually required contribution to SERS was \$39,140 for fiscal year 2019.

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

Plan Description – WCE 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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through 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. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 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.

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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. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. 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 DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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.

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, 2019, plan members were required to contribute 14 percent of their annual covered salary. WCE was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

WCE's contractually required contribution to STRS was \$149,011 for fiscal year 2019.

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**4. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. WCE'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:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01108487%	0.00843680%	
Prior Measurement Date	0.01131518%	0.00858243%	
Change in Proportionate Share	<u>-0.00023031%</u>	<u>-0.00014563%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 634,851	\$ 1,855,062	\$ 2,489,913
Pension Expense	\$ 50,231	\$ 146,138	\$ 196,369

Deferred outflow/inflow 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 WCE's proportion of the collective net pension liability. The deferred outflow and deferred inflow 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 outflow and deferred inflow 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.

At June 30, 2019 WCE reported deferred outflow of resources and deferred inflow of resources related to pensions from the following sources:

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	SERS	STRS	Total
<b>Deferred Outflow of Resources</b>			
Differences between Expected and Actual Experience	\$ 34,816	\$ 42,818	\$ 77,634
Changes of Assumptions	14,335	328,752	343,087
Changes in Proportion and Differences between WCE Contributions and Proportionate Share of Contributions	17,696	89,615	107,311
WCE Contributions Subsequent to the Measurement Date	39,140	149,011	188,151
<b>Total Deferred Outflow of Resources</b>	<b>\$ 105,987</b>	<b>\$ 610,196</b>	<b>\$ 716,183</b>
<b>Deferred Inflow of Resources</b>			
Differences between Expected and Actual Experience	\$ 0	\$ 12,115	\$ 12,115
Net Difference between Projected and Actual Earnings on Pension Plan Investments	17,590	112,487	130,077
Changes in Proportion and Differences between WCE Contributions and Proportionate Share of Contributions	8,173	241,421	249,594
<b>Total Deferred Inflow of Resources</b>	<b>\$ 25,763</b>	<b>\$ 366,023</b>	<b>\$ 391,786</b>

\$188,151 reported as deferred outflow of resources related to pension resulting from WCE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 52,449	\$ 129,500	\$ 181,949
2021	14,864	63,011	77,875
2022	(20,836)	(67,648)	(88,484)
2023	(5,393)	(29,701)	(35,094)
	<b>\$ 41,084</b>	<b>\$ 95,162</b>	<b>\$ 136,246</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 terminations). 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

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the future.

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, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

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 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 asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** 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 that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflow 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 WCE'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 WCE's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what WCE'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.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
WCE's Proportionate Share of the Net Pension Liability	\$ 894,235	\$ 634,851	\$ 417,374

**6. Actuarial Assumptions - STRS**

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011 through June 30, 2016.

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made

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at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

***Sensitivity of WCE's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents WCE's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what WCE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease	Current Discount Rate	1% Increase
WCE's Proportionate Share of the Net Pension Liability	\$ 2,709,074	\$ 1,855,062	\$ 1,132,257

**XIII. Defined Benefit – Other Post-Employment Benefits (OPEB)**

**1. Net Other Post-Employment Benefits Liability/(Asset)**

The net OPEB asset/liability reported on the statement of net position represents an asset or liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB asset/liability represents WCE's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB asset/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 these estimates annually.

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



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GASB 75 assumes the asset/liability is solely that of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees, which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB asset/ liability*. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *due to other governments*.

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

Health Care Plan Description - WCE contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 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 2019, WCE's surcharge obligation was \$3,059.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. WCE's contractually required contribution to SERS was \$4,509 for fiscal year 2019. Of this amount \$3,059 is reported as an accounts payable.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is 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 to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

**4. OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB**

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. WCE's proportion of the net OPEB

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asset/liability was based on WCE's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense.

	SERS	STRS	Total
Proportion of the Net OPEB Liability/(Asset):			
Current Measurement Date	0.01081060%	0.00843680%	
Prior Measurement Date	0.01085774%	0.00858243%	
Change in Proportionate Share	<u>-0.00004714%</u>	<u>-0.00014563%</u>	
Proportionate Share of the Net			
OPEB Liability/(Asset)	\$ 299,915	\$ (135,571)	\$ 164,344
OPEB Expense	\$ 12,478	\$ (304,387)	\$ (291,909)

At June 30, 2019, WCE reported deferred outflow of resources and deferred inflow of resources related to OPEB from the following sources:

	SERS	STRS	Total
<b>Deferred Outflow of Resources</b>			
Differences between Expected and			
Actual Experience	\$ 4,896	\$ 15,835	\$ 20,731
Changes in Proportion and Differences between			
WCE Contributions and Proportionate			
Share of Contributions	7,578	0	7,578
WCE Contributions Subsequent to the			
Measurement Date	4,509	0	4,509
<b>Total Deferred Outflow of Resources</b>	<u>\$ 16,983</u>	<u>\$ 15,835</u>	<u>\$ 32,818</u>
<b>Deferred Inflow of Resources</b>			
Differences between Expected and			
Actual Experience	\$ 0	\$ 7,899	\$ 7,899
Net Difference between Projected and			
Actual Earnings on OPEB Plan Investments	449	15,488	15,937
Changes of Assumptions	26,946	184,726	211,672
Changes in Proportion and Differences between			
WCE Contributions and Proportionate			
Share of Contributions	0	52,546	52,546
<b>Total Deferred Inflow of Resources</b>	<u>\$ 27,395</u>	<u>\$ 260,659</u>	<u>\$ 288,054</u>

\$4,509 reported as deferred outflow of resources related to OPEB resulting from WCE contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2020	\$ (6,660)	\$ (44,761)	\$ (51,421)
2021	(5,301)	(44,761)	(50,062)
2022	(989)	(44,763)	(45,752)
2023	(798)	(41,243)	(42,041)
2024	(830)	(40,009)	(40,839)
Thereafter	(343)	(29,287)	(29,630)
	<u>\$ (14,921)</u>	<u>\$ (244,824)</u>	<u>\$ (259,745)</u>

**5. Actuarial Assumptions – SERS**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change

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in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of WCE's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25

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percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
WCE's Proportionate Share of the Net OPEB Liability	\$ 363,924	\$ 299,915	\$ 249,233
	1% Decrease	Current Trend Rate	1% Increase
WCE's Proportionate Share of the Net OPEB Liability	\$ 241,977	\$ 299,915	\$ 376,637

**6. Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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:

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<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB asset/liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

**Sensitivity of WCE's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability/asset as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

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	1% Decrease	Current Discount Rate	1% Increase
WCE's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (116,197)	\$ (135,571)	\$ (151,854)
	1% Decrease	Current Trend Rate	1% Increase
WCE's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (150,934)	\$ (135,571)	\$ (119,968)

**XIV. Contingencies**

**1. Grants**

WCE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of WCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCE at June 30, 2019.

**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 WCE for fiscal year 2019.

As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of WCE.

In addition, WCE's contracts with their Sponsor, ESC of Lake Erie West and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by the school from the State (See Note XV). As discussed above, FTE adjustments for fiscal year 2019 are not finalized. Until such adjustments are



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finalized by ODE, the impact on the fiscal year 2019 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, WCE.

**XV. Sponsorship and Management Agreements**

WCE entered into an agreement with the ESC of Lake Erie West, (ESCLEW) formerly Lucas County Educational Service Center, to provide sponsorship and oversight services as required by law. The agreement was renewed at the end of the fiscal year and continues until June 30, 2022. Sponsorship fees were calculated as 2.50% of the Fiscal Year 2019 Foundation payments received by WCE, from the State of Ohio. The total amount due ESCLEW from WCE for fiscal year 2019 was \$60,094, all of which was paid prior to June 30, 2019.

WCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2019. The agreement was for a period of one year, effective July 1, 2018. Management fees are calculated as 6.25% of the Fiscal Year 2019 Foundation payments received by WCE from the State of Ohio plus a fixed fee of \$182,500. The total amount due from WCE for the fiscal year ending June 30, 2019 was \$337,454 all of which was paid prior to June 30, 2019.

**XVI. Net Restricted for Debt Purposes**

Net restricted for debt purposes represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Project Fund, which is included in Escrow Accounts, is being held for construction purposes and was partially liquidated during the fiscal year. The Bond Debt Service Account and the Expense Fund, which are included in Escrow Accounts, along with the Debt Service Reserve and Operating Reserve Accounts, which are being held for bond financing reserve requirements, will continue to be funded until January 1, 2044.

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**Constellation Schools: WestPark Community Elementary**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the WCE's Proportionate Share of the Net Pension Liability*  
*Last Six Fiscal Years (1)*

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>School Employees Retirement System (SERS)</b>						
WCE's Proportion of the Net Pension Liability	0.01108487%	0.01131518%	0.01078438%	0.01049050%	0.01096489%	0.01096489%
WCE's Proportionate Share of the Net Pension Liability	\$ 634,851	\$ 676,057	\$ 789,317	\$ 598,598	\$ 554,927	\$ 652,047
WCE's Covered Payroll (2)	\$ 360,919	\$ 364,357	\$ 338,200	\$ 203,399	\$ 248,867	\$ 149,046
WCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.90%	185.55%	233.39%	294.30%	222.98%	437.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%
<b>State Teachers Retirement System (STRS)</b>						
WCE's Proportion of the Net Pension Liability	0.00843680%	0.00858243%	0.00982217%	0.00914288%	0.00889179%	0.00889179%
WCE's Proportionate Share of the Net Pension Liability	\$ 1,855,062	\$ 2,038,775	\$ 3,287,776	\$ 2,526,825	\$ 2,162,791	\$ 2,576,303
WCE's Covered Payroll (2)	\$ 959,514	\$ 943,486	\$ 1,001,129	\$ 806,914	\$ 822,485	\$ 939,792
WCE's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.33%	216.09%	328.41%	313.15%	262.96%	274.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%	66.80%	72.10%	74.70%	69.30%

(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 years 2016 through 2019 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

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

See accompanying notes to the required supplementary information.

**Constellation Schools: WestPark Community Elementary**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the WCE's Contributions - Pension*  
*Last Ten Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>School Employees Retirement System (SERS)</b>				
Contractually Required Contribution	\$ 39,140	\$ 48,724	\$ 51,010	\$ 47,348
Contributions in Relation to the Contractually Required Contribution	<u>(39,140)</u>	<u>(48,724)</u>	<u>(51,010)</u>	<u>(47,348)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCE's Covered Payroll (1)	\$ 289,926	\$ 360,919	\$ 364,357	\$ 338,200
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%
<b>State Teachers Retirement System (STRS)</b>				
Contractually Required Contribution	\$ 149,011	\$ 134,332	\$ 132,088	\$ 140,158
Contributions in Relation to the Contractually Required Contribution	<u>(149,011)</u>	<u>(134,332)</u>	<u>(132,088)</u>	<u>(140,158)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCE's Covered Payroll (1)	\$ 1,064,364	\$ 959,514	\$ 943,486	\$ 1,001,129
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

(1) 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 years 2016 through 2019 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

See accompanying notes to the required supplementary information.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 26,808	\$ 34,493	\$ 20,628	\$ 20,623	\$ 16,996	\$ 15,772
<u>(26,808)</u>	<u>(34,493)</u>	<u>(20,628)</u>	<u>(20,623)</u>	<u>(16,996)</u>	<u>(15,772)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 203,399	\$ 248,867	\$ 149,046	\$ 153,331	\$ 135,211	\$ 116,484
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
\$ 112,968	\$ 106,923	\$ 122,173	\$ 135,391	\$ 127,144	\$ 116,842
<u>(112,968)</u>	<u>(106,923)</u>	<u>(122,173)</u>	<u>(135,391)</u>	<u>(127,144)</u>	<u>(116,842)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 806,914	\$ 822,485	\$ 939,792	\$ 1,041,469	\$ 978,031	\$ 898,785
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**Constellation Schools: Westpark Community Elementary**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the WCE's Proportionate Share of the Net OPEB Liability/(Asset)*  
*Last Three Fiscal Years (1)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>School Employees Retirement System (SERS)</b>			
WCE's Proportion of the Net OPEB Liability	0.01081060%	0.01085774%	0.01020866%
WCE's Proportionate Share of the Net OPEB Liability	\$ 299,915	\$ 291,393	\$ 290,985
WCE's Covered Payroll	\$ 360,919	\$ 364,357	\$ 338,200
WCE's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	83.10%	79.97%	86.04%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%
<b>State Teachers Retirement System (STRS)</b>			
WCE's Proportion of the Net OPEB Liability/(Asset)	0.00843680%	0.00858243%	0.00982217%
WCE's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (135,571)	\$ 334,855	\$ 525,292
WCE's Covered Payroll	\$ 959,514	\$ 943,486	\$ 1,001,129
WCE's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-14.13%	35.49%	52.47%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/ (Asset)	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

**Constellation Schools: Westpark Community Elementary**  
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*Required Supplementary Information*  
*Schedule of the WCE's Contributions - OPEB*  
*Last Ten Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>School Employees Retirement System (SERS)</b>				
Contractually Required Contribution (1)	\$ 4,509	\$ 5,572	\$ 2,865	\$ 1,702
Contributions in Relation to the Contractually Required Contribution	<u>(4,509)</u>	<u>(5,572)</u>	<u>(2,865)</u>	<u>(1,702)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCE's Covered Payroll (2)	\$ 289,926	\$ 360,919	\$ 364,357	\$ 338,200
OPEB Contributions as a Percentage of Covered Payroll (1)	1.56%	1.54%	0.79%	0.50%
<b>State Teachers Retirement System (STRS)</b>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCE's Covered Payroll (2)	\$ 1,064,364	\$ 959,514	\$ 943,486	\$ 1,001,129
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

(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 years 2016 through 2019 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

See accompanying notes to the required supplementary information.



<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 3,924	\$ 2,583	\$ 2,143	\$ 3,668	\$ 2,966	\$ 2,134
<u>(3,924)</u>	<u>(2,583)</u>	<u>(2,143)</u>	<u>(3,668)</u>	<u>(2,966)</u>	<u>(2,134)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 203,399	\$ 248,867	\$ 149,046	\$ 153,331	\$ 135,211	\$ 116,484
1.93%	1.04%	1.44%	2.39%	2.19%	1.83%
\$ 0	\$ 8,225	\$ 9,398	\$ 10,415	\$ 9,780	\$ 8,988
<u>0</u>	<u>(8,225)</u>	<u>(9,398)</u>	<u>(10,415)</u>	<u>(9,780)</u>	<u>(8,988)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 806,914	\$ 822,485	\$ 939,792	\$ 1,041,469	\$ 978,031	\$ 898,785
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

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**Note 1 - Net Pension Liability**

***Changes in Assumptions - SERS***

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to 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 was updated to 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 was updated to 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.

***Changes in Benefit Terms - SERS***

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

***Changes in Assumptions – STRS***

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

***Changes in Benefit Terms - STRS***

For fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

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**FOR THE YEAR ENDED JUNE 30, 2019**

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**Note 2 - Net OPEB Liability**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare

Fiscal year 2018 7.50 percent initially, decreasing to 5.00 percent

Fiscal year 2019 7.25 percent initially, decreasing to 4.75 percent

Medicare

Fiscal year 2018 5.50 percent initially, decreasing to 5.00 percent

Fiscal year 2019 5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

***Changes in Benefit Terms - SERS***

There have been no changes to the benefit provisions.

***Changes in Assumptions – STRS***

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of - 5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
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***Changes in Benefit Terms – STRS***

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. This was subsequently extended, see above paragraph.



Lausche Building, 12<sup>th</sup> Floor  
615 Superior Avenue, NW  
Cleveland, Ohio 44113-1801  
(216) 787-3665 or (800) 626-2297  
NortheastRegion@ohioauditor.gov

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Constellation Schools: Westpark Community Elementary  
Cuyahoga County  
16210 Lorain Road  
Cleveland, OH 44111

5730 Broadview Rd  
Parma, OH 44134

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Constellation Schools: Westpark Community Elementary, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2019, 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 20, 2019.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

November 20, 2019

# OHIO AUDITOR OF STATE KEITH FABER



**CONSTELLATION SCHOOLS – WESTPARK COMMUNITY ELEMENTARY**

**CUYAHOGA COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 26, 2019**