

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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2012



Constellation Schools

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



Dave Yost • Auditor of State

Board of Trustees
Constellation Schools: Westpark Community Elementary
16210 Lorain Road
Cleveland, Ohio 44111

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Westpark Community Elementary, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 29, 2013

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

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November 27, 2012

The Board of Trustees
Constellation Schools: Westpark Community Elementary
16210 Lorain Road
Cleveland, Ohio 44111

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Westpark Community Elementary, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2012, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Hea & Associates, Inc.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

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, 2012. 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 2012 include the following:

- In total, net assets decreased \$42,802, which represents a 2.5% decrease from 2011. An increase occurred in operating revenues due to increased enrollment, rents collected and services provided to other schools. These revenue increases were offset by the expiration of federal stimulus programs and increased expenses that were including hiring additional staff for the increased enrollment.
- Total assets decreased \$12,094, which represents a 0.1% decrease from 2011. This is due to reduced cash that was used to loan to other schools, increased bond reserve accounts, increased loans receivable and increased security deposits offset by asset depreciation and amortization.
- Liabilities increased \$30,708 which represents a 0.5% increase from 2011. Increases in vendor payables and equipment leases were offset by decreases in interest payable, deferred revenue and bond notes payable during the year.
- Operating revenues increased by \$317,112 which represents a 13.3% increase from 2011. The increase was from basic state support, rental income collections and services prided to other schools.
- Expenses increased by \$141,746 which represents a 4.8% increase from 2011. Operating expense increases are due to expenditures incurred for the increased enrollment increase, normal increases in service costs and increased depreciation and amortization.
- Non-operating revenues decreased by \$253,474, which represents a 40.6% decrease from 2011. This decrease is due to entirely to the expiration of federal stimulus programs and minor state grants. The school earned interest income on loans receivable.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Statement of Net Assets

The Statement of Net Assets looks at how well WCE has performed financially through June 30, 2012. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Assets for fiscal years ended June 30, 2012 and 2011 for WCE.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Assets				
Cash	\$1,081,796	\$1,346,530	(\$264,734)	-19.7%
Other Current Assets	593,688	346,212	247,476	71.5%
Non-Current Assets	1,611,759	1,551,511	60,248	3.9%
Capital Assets	<u>4,945,950</u>	<u>5,001,034</u>	<u>(55,084)</u>	<u>-1.1%</u>
Total Assets	<u>8,233,193</u>	<u>8,245,287</u>	<u>(12,094)</u>	<u>-0.1%</u>
Liabilities				
Current Liabilities	357,558	326,969	30,589	9.4%
Long-Term Liabilities	<u>6,189,975</u>	<u>6,189,856</u>	<u>119</u>	<u>0.0%</u>
Total Liabilities	<u>6,547,533</u>	<u>6,516,825</u>	<u>30,708</u>	<u>0.5%</u>
Net Assets				
Investment in capital assets, net of related debt	241,847	360,802	(118,955)	-33.0%
Restricted for Debt Purposes, net of related debt	254,288	199,528	54,760	27.4%
Unrestricted	<u>1,189,525</u>	<u>1,168,132</u>	<u>21,393</u>	<u>1.8%</u>
Total Net Assets	<u>\$1,685,660</u>	<u>\$1,728,462</u>	<u>(\$42,802)</u>	<u>-2.5%</u>

Net Assets decreased \$42,802 due to the expiration of federal stimulus programs and increased operating costs due to enrollment increases. These were partially offset by increased Basic State Aid, interest income, rental income and services provided to other schools. Cash decreased \$264,734; bond escrow accounts decreased \$34,059; loans receivable increased \$262,351; due from other governments decreased \$11,725; accounts receivable increased \$11,459, prepaid expenses increased \$19,450; bond reserve accounts increased \$74,894; security deposits increased \$2,855; deferred charges decreased \$17,501 and net capital assets decreased \$55,084 from 2011. Accounts payable increased \$2,102; interest payable decreased \$1,734; deferred revenue decreased \$2,105; equipment lease payable increased \$107,589 and bonds payable decreased \$75,144.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2012.

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

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Revenues				
Foundation and Poverty Based Assistance Revenues	\$2,301,539	\$2,059,889	\$241,650	11.7%
Other Operating Revenues	400,561	325,099	75,462	23.2%
Total Operating Revenues	<u>2,702,100</u>	<u>2,384,988</u>	<u>317,112</u>	<u>13.3%</u>
Interest Income	10,036	10	10,026	100.0%
Federal and State Grants	360,755	616,636	(255,881)	-41.5%
Private Grants and Contributions	0	7,619	(7,619)	-100.0%
Total Non-Operating Revenues	<u>370,791</u>	<u>624,265</u>	<u>(253,474)</u>	<u>-40.6%</u>
Total Revenues	<u>3,072,891</u>	<u>3,009,253</u>	<u>63,638</u>	<u>2.1%</u>
Expenses				
Salaries	1,181,190	1,093,182	88,008	8.1%
Fringe Benefits	349,993	315,664	34,329	10.9%
Purchased Services	760,019	747,270	12,749	1.7%
Materials and Supplies	124,871	138,690	(13,819)	-10.0%
Capital Outlay	19,683	6,224	13,459	216.2%
Depreciation and Amortization	181,273	175,155	6,118	3.5%
Other Expenses	498,664	497,762	902	0.2%
Total Expenses	<u>3,115,693</u>	<u>2,973,947</u>	<u>141,746</u>	<u>4.8%</u>
Net Income/(Loss)	<u>(42,802)</u>	<u>35,306</u>	<u>(78,108)</u>	<u>-221.2%</u>
Net Assets at Beginning of the Year	<u>1,728,462</u>	<u>1,693,156</u>	<u>35,306</u>	<u>2.1%</u>
Net Assets at End of Year	<u>\$1,685,660</u>	<u>\$1,728,462</u>	<u>(\$42,802)</u>	<u>-2.5%</u>

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Net Assets decreased in fiscal year ended June 30, 2012 and increased in fiscal year ended 2011. This is due to increases in rent income, services provided to other schools and enrollment increases. In 2011 federal grants increased primarily through federal stimulus programs which expired at the beginning of 2012. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease, other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

The most significant changes in revenues from 2011 to 2012 are increases of \$241,650 in Basic State Aid, \$45,000 in rent collected from Constellation Schools: Westpark Community Middle and \$32,000 for services provided to other schools. Federal grants and State Grants decreased \$250,011 and \$5,870, respectively. Other Income increased for interest earned miscellaneous income.

Overall expenses increased from 2011 to 2012 by a total of \$141,746. Salaries and Fringe Benefits increased \$122,337 due to hiring additional staff and annual increases. Purchased services increased slightly by \$12,749 due to changes in pupil support services, special education needs, management expenses and occupancy costs. Materials and Supplies decreased \$13,819 due to reduced purchases of text books and general instructional supplies. Capital Outlay increased \$13,459 for technology and equipment. Depreciation and amortization increased \$6,118 and Other Expenses increased slightly by \$902 due to equipment lease interest.

Capital Assets

As of June 30, 2012, WCE had \$4,945,950 invested in land, building, building improvements, computers, technology, furniture and equipment, net of depreciation. This is a \$55,084 decrease from June 30, 2011. The following schedule provides a summary of Capital Assets as of June 30, 2012 and 2011 for WCE.

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Capital Assets (net of depreciation)				
Land	\$322,900	\$322,900	\$0	0.0%
Building	614,022	633,566	(19,544)	-3.1%
Building Improvements	3,882,208	3,992,546	(110,338)	-2.8%
Computers and Technology	109,754	21,158	88,596	418.7%
Furniture and Equipment	17,066	30,864	(13,798)	-44.7%
Net Capital Assets	<u>\$4,945,950</u>	<u>\$5,001,034</u>	<u>(\$55,084)</u>	<u>-1.1%</u>

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

Debt Service

On November 12, 2003 the School purchased the land and building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage was held by US Bank National Association and the second mortgage was held by First Federal Savings & Loan Association of Lakewood.

CONSTELLATION SCHOOLS: WESTPARK COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2012

On January 23, 2008, WCE refinanced the land and building in which it operates. Additional funds were borrowed to facilitate construction of an addition to meet enrollment demand for the school. Financing of the purchase was accomplished through bonds issued by The Industrial Development Authority of the County of Pima (IDA) as part of a multi-school, multi-property project. Under terms of the bond financing IDA obtained title to the property occupied by WCE. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2012 is \$6,189,856. During August 2008 the mortgage was transferred from Wells Fargo Bank, National Association to US Bank, National Association. For more information on debt service see the Notes to the Financial Statements.

Equipment Lease

During fiscal year 2012 WCE entered into a lease agreement with Winthrop Resources Corporation for \$118,357 worth of technology equipment. The lease value has been recorded as capital equipment to recognize the asset, and as capital equipment lease payable to recognize the lease debt. The lease term is for a total of 48 months, carries an interest rate of 7.38% per annum and will expire in January 2016 at which time the equipment will have minimal value. The outstanding principal value as of June 30, 2012 on the lease payable is \$107,589.

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 302 students, 32 teaching staff members and expenses of \$3,115,693. 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.

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for WCE and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Treasurer/CFO Thomas F. Babb, CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at babb.thomas@constellationschools.com; by calling 216.712.7600; or by faxing 216.712.7601.

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

Assets:

Current Assets:

Cash	\$1,081,796
Escrow Accounts	263,726
Loans Receivable	294,428
Due from Other Governments	4,625
Accounts Receivable	11,458
Prepaid Expenses	19,451
<i>Total Current Assets</i>	<u>1,675,484</u>

Non-Current Assets:

Security Deposit	27,855
Bond Reserve Accounts	1,137,619
Deferred Charges	446,285
Non-Depreciable Capital Assets	322,900
Capital Assets (Net of Accumulated Depreciation)	4,623,050
<i>Total Non-Current Assets</i>	<u>6,557,709</u>
<i>Total Assets</i>	<u>8,233,193</u>

Liabilities:

Current Liabilities:

Accounts Payable	18,654
Interest Payable	215,189
Deferred Revenue	16,245
Capital Lease Equipment Payable	27,231
Capital Lease Bond Notes Payable	80,239
<i>Total Current Liabilities</i>	<u>357,558</u>

Long Term Liabilities:

Capital Lease Equipment Payable	80,358
Capital Lease Bond Notes Payable	6,109,617
<i>Total Long Term Liabilities</i>	<u>6,189,975</u>
<i>Total Liabilities</i>	<u>6,547,533</u>

Net Assets:

Investment in capital assets, net of related debt	241,847
Restricted for Debt Purposes, net of related debt	254,288
Unrestricted	1,189,525
<i>Total Net Assets</i>	<u>\$1,685,660</u>

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

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

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$2,301,539
Other Operating Revenues	400,561
<i>Total Operating Revenues</i>	<u>2,702,100</u>

Operating Expenses:

Salaries	1,181,190
Fringe Benefits	349,993
Purchased Services	760,019
Materials and Supplies	124,871
Capital Outlay	19,683
Depreciation and Amortization	181,273
Other Operating Expenses	63,045
<i>Total Operating Expenses</i>	<u>2,680,074</u>

Operating Income	<u>22,026</u>
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Non-Operating Revenues & Expenses:

Interest Income	10,036
Interest Expense	(435,619)
Federal and State Grants	360,755
<i>Total Non-Operating Revenues & Expenses</i>	<u>(64,828)</u>

Net Loss	<u>(42,802)</u>
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Net Assets at Beginning of the Year	<u>1,728,462</u>
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Net Assets at End of Year	<u><u>\$1,685,660</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
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$2,301,539
Cash Payments to Suppliers for Goods and Services	(1,336,870)
Cash Payments to Employees for Services	(1,181,190)
Other Operating Revenues	386,998
Net Cash Provided by Operating Activities	<u>170,477</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>372,656</u>
Net Cash Provided by Noncapital Financing Activities	<u>372,656</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(120,146)
Disposal of Assets at Net Book Value	11,458
Decrease in Escrow Funds	34,059
Increase in Bond Reserve Accounts	(74,894)
Bond Principal Payments	(75,144)
Bond Interest Payments	(432,113)
Proceeds for Equipment Lease	118,357
Equipment Lease Principal Payments	(10,768)
Equipment Lease Interest Payments	(3,507)
Increase in Security Deposits	<u>(2,855)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(555,553)</u>

Cash Flows from Investing Activities:

Interest	10,036
Payment for Loans Receivable	(310,422)
Principal Collected for Loans Receivable	<u>48,072</u>
Net Cash Used for Investing Activities	<u>(252,314)</u>

Net Decrease in Cash	(264,734)
Cash at Beginning of Year	<u>1,346,530</u>
Cash at End of Year	<u><u>\$1,081,796</u></u>

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

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

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

Operating Income	\$22,026
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**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:**

Depreciation and Amortization	181,273
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Changes in Assets and Liabilities:

(Increase) in Due from Other Governments	(176)
(Increase) in Accounts Receivable	(11,458)
(Increase) in Prepaid Expenses	(19,450)
(Decrease) in Accounts Payable	367
(Decrease) in Deferred Revenue	(2,105)

Total Adjustments	148,451
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Net Cash Provided by Operating Activities	\$170,477
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The accompanying notes to the financial statements are an integral part of this statement.

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

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

I. Description of the School and Reporting Entity

Constellation Schools: Westpark Community Elementary (WCE) is a nonprofit corporation established August 25, 2000 as Westpark Community School (WCS) 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 (as WCS) was approved for operation under a contract between the Governing Authority of Constellation Schools: Westpark Community Elementary and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. On October 16, 2003 WCE (as WCS) entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. 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 management services for the fiscal year. See Note XV for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Westpark Community Elementary.

WCE operates under a six member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board of Directors controls WCE's instructional facility staffed by thirty-two certificated full time teaching personnel who provided services to 302 students. During 2012, the board members for WCE also serve as the board for Constellation Schools: Westpark Community Middle.

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 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. WCE also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on

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

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

or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. WCE has elected not to follow FASB guidance issued after November 30, 1989 for its proprietary activities. The more significant of WCE's accounting policies are described below.

1. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. 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.

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

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

3. Cash

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

4. 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.

5. Due From Other Governments and Loans Receivable

Monies due WCE for the year ended June 30, 2012 are recorded as Due From Other Governments and as Loans Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated except for land. Depreciation of buildings, building improvements, computers, technology and furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets or less. Estimated useful lives are as follows:

Capital Asset Classification	Years
Building	40
Building Improvements	10 to 40
Computers and Technology	3
Furniture and Equipment	10

7. Intergovernmental Revenues

WCE currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. WCE also participates in Federal Entitlement Programs, the Federal Lunch

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Reimbursement Program, the American Recovery and Reinvestment Act, Education Jobs, Race to the Top and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2012 school year totaled \$2,662,294.

8. 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 2012 school year.

9. 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.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

11. Deferred Revenue

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

12. Deferred Charges

Deferred charges have been recorded on the Statement of Net Assets to recognize financing fees related to the bond financing arrangement discussed in note VIII. These charges are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method.

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III. Deposits

At fiscal year end June 30, 2012, the carrying amount of WCE's deposits totaled \$1,081,796 and its bank balance was \$1,100,030. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2012, \$850,030 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 Industrial Development Authority of the County of Pima, Arizona totaled \$1,401,345 at fiscal year end June 30, 2012. The escrow and reserve accounts are invested in the First American US Treasury Money Market Fund and are 100% backed by the full faith and credit of the United States government.

Custodial credit risk is the risk that in the event of bank failure, WCE will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of WCE.

IV. Purchased Services

Purchased Services include the following:

Instruction	\$35,104
Pupil Support Services	107,239
Staff Development & Support	5,630
Administrative	386,134
Occupancy Costs	147,065
Food Services	77,419
Student Activities	<u>1,428</u>
Total Purchased Services	<u><u>\$760,019</u></u>

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V. Capital Assets

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

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/12</u>
Capital Assets Not Being Depreciated:				
Land	\$322,900	\$0	\$0	\$322,900
Capital Assets Being Depreciated:				
Building	781,775	0	0	781,775
Building Improvements	4,239,415	0	0	4,239,415
Computers and Technology	120,041	118,357	(18,639)	219,759
Furniture and Equipment	51,149	1,789	(12,500)	40,438
Total Capital Assets Being Depreciated	<u>5,192,380</u>	<u>120,146</u>	<u>(31,139)</u>	<u>5,281,387</u>
Less Accumulated Depreciated:				
Building	(148,209)	(19,544)	0	(167,753)
Building Improvements	(246,869)	(110,338)	0	(357,207)
Computers and Technology	(98,883)	(29,761)	18,639	(110,005)
Furniture and Equipment	(20,285)	(4,128)	1,041	(23,372)
Total Accumulated Depreciation:	<u>(514,246)</u>	<u>(163,771)</u>	<u>19,680</u>	<u>(658,337)</u>
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>4,678,134</u>	<u>(43,625)</u>	<u>(11,459)</u>	<u>4,623,050</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$5,001,034</u>	<u>(\$43,625)</u>	<u>(\$11,459)</u>	<u>\$4,945,950</u>

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VI. Capital Equipment Lease Payable

During fiscal year 2012, WCE entered into a four year lease for technology equipment. This lease meets the criteria of a capital lease 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 \$118,357 have been capitalized. 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 2012 totaled \$10,768 and interest paid totaled \$3,507. Future minimum lease payments for principal and interest under the capital lease are as follows:

Year	Principal	Interest	Total
2013	\$27,231	\$7,030	\$34,261
2014	29,309	4,952	34,261
2015	31,547	2,714	34,261
2016	19,502	483	19,985
Total	\$107,589	\$15,179	\$122,768

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 leases the property from IDA under a capitalized lease arrangement (see Note VIII). 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. Loan fees, previously capitalized under the original mortgage, have been expensed net of accumulated depreciation.

VIII. Capital Lease Bond Notes Payable

On January 23, 2008 WCE closed a multi-school, multi-property bond financing arrangement with the Industrial Development Authority of the County of Pima (IDA). Under terms of the bond agreement IDA acquired the property owned by WCE for the remaining mortgage balance carried by WCE at the time. In addition IDA is financing a multi-million dollar building expansion to meet increasing demand for enrollment. The property is leased back to WCE

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through annual lease renewals through January 2038. IDA secured a mortgage on the land, building and improvements from Wells Fargo Bank, National Association which was transferred to US Bank, National Association in August 2008. Financing was achieved through the issuance of a series of bonds maturing annually beginning on January 1, 2012 and continuing until January 1, 2038. Interest is at the rate of 6.375% per annum for the bonds maturing between 2012 and 2019 and at a rate of 7.00% per annum for the bonds maturing after 2019. The outstanding principal balance as of June 30, 2012 is \$6,189,856 and interest payable due July 1, 2012 is \$214,527. Interest expense during 2012 totaled \$431,450. Changes in the Capital Lease Bond Notes Payable during the year consist of the following:

	6/30/11	Additions	Deletions	6/30/12	Due In One Year
Lease Revenue					
Bonds	\$6,265,000	\$0	\$75,144	\$6,189,856	\$80,239

These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases" and has been recorded in the financial statements. Land, Building, Other Purchase Costs, and Building Improvements in existence at the date of the property sale continue to be recognized as capital assets and are being depreciated over their remaining useful life. Construction was completed during fiscal year 2009 and Construction in Progress totaling \$3,833,322 was transferred to the building improvements capital account. Issuance costs, finance fees and underwriters discount totaling \$525,041 are recorded as deferred charges and are being amortized over the life of the bonds using the straight-line method. Accumulated amortization as of June 30, 2012 was \$78,756.

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

As part of the agreements for the leases, monies were deposited into several escrow accounts with Wells Fargo Bank, N.A. as Bond Trustee and subsequently transferred to US Bank, N.A. Payments for construction and financing activities have been paid from these accounts through June 30, 2012. Lease payments were made by WCE to cover bond interest and administrative fees due in July 2012 and to make deposits into reserve accounts. Funds were deposited from initial bond proceeds into an Operating Reserve and a Reserve Fund for future operating and debt service needs. A Supplemental Reserve, to be used for future debt service, is funded by payments of an additional 8% of the base lease payment for the full bond term.

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Lease payments made during 2012 to fund interest, reserves and bond expenses totaled \$527,342. The balances of escrow and reserve accounts as of June 30, 2012 are as follows:

Bond Fund	\$254,647
Expense Fund	<u>9,079</u>
Total Bond Escrow Accounts	<u><u>\$263,726</u></u>
Reserve Fund	\$626,500
Supplemental Reserve	163,687
Operating Reserve	<u>347,432</u>
Total Bond Reserve Accounts	<u><u>\$1,137,619</u></u>

The assets refinanced and acquired through the capital lease as of June 30, 2012 are as follows:

Land	\$322,900
Building	781,775
Building Improvements	4,239,415
Bond Finance Fees	<u>525,041</u>
Sub-Total	5,869,131
Accumulated Depreciation/Amortization	<u>(737,094)</u>
Net Book Value	<u><u>\$5,132,037</u></u>

Future minimum lease payments for principal and interest (does not include reserves and management expenses) under the capital lease are as follows:

Year	Principal	Interest	Total
2013	\$80,239	\$429,055	\$509,294
2014	85,333	423,940	509,273
2015	90,428	418,500	508,928
2016	95,522	412,735	508,257
2017	101,891	406,645	508,536
2018 - 2022	620,259	1,924,499	2,544,758
2023 - 2027	866,070	1,677,616	2,543,686
2028 - 2032	1,216,320	1,328,756	2,545,076
2033 - 2037	1,704,121	839,299	2,543,420
2038	<u>1,329,673</u>	<u>93,077</u>	<u>1,422,750</u>
Total	<u><u>\$6,189,856</u></u>	<u><u>\$7,954,122</u></u>	<u><u>\$14,143,978</u></u>

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IX. Sub Lease

WCE sub-leases space to Constellation Schools: Westpark Community Middle (WCM) for the year. Under the terms of the sub-lease WCM made monthly lease payments of \$18,541.67. WCE charged WCM a total of \$222,500 during the year. As of June 30, 2012 all lease payments were collected from WCM.

X. Loans Receivable

On June 30, 2011 WCE executed two unsecured promissory notes with Constellation Schools: Madison Community Elementary (MDCE) in the amount of \$200,000 and Constellation Schools: Stockyard Community Middle (SCM) in the amount of \$150,000. Each note carries interest at 4% per annum. Interest only was charged through September 30, 2011 at which time interest and principal payments began. Payments will be based on a five year amortization schedule with a balloon payment for the principal balance due at June 30, 2012. At the June 2012 board meeting the WCE board voted to extend the notes under the same amortization schedule through June 30, 2013 at which time the remaining principal balance will be due. As of June 30, 2012, principal balances on the notes are \$165,104 for MDCE and \$129,324 for SCM.

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 2012, WCE contracted with Indiana Insurance Company for all of its insurance.

General property and liability is covered at \$10,000,000 single occurrence limit and \$11,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

2. Workers' Compensation

WCE makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There has been one claim filed by WCE employees with the Ohio Worker's Compensation System between January 1, 2003 and June 30, 2012. The total payments made for these claims have been \$970. In the opinion of management,

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these claims will not have a material adverse effect on the overall financial position of WCE as June 30, 2012.

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 \$154,055.

XII. Defined Benefit Pension Plans

1. State Teachers Retirement System

WCE participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone comprehensive annual financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling toll-free 1-888-227-7877, or by visiting the STRS website at www.strsoh.org.

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

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times

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

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

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

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

The DB and Combined Plan offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial

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reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011 (the latest year available), were 10% of covered payroll for members and 14% for employers. The amount required to fund pension obligations during the year is 13%.

WCE's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011 and 2010 were \$135,391, \$127,144 and \$116,842 respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

2. School Employees Retirement System

WCE contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and WCE is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate

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among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2011 (the latest year available), the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. WCE's contributions to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$19,561, \$16,121 and \$15,177, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

XIII. Post-Employment Benefits Other than Pension Benefits

1. State Teachers Retirement System

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2012, 2011 and 2010 WCE's contributions to post-employment health care were \$10,415, \$8,988 and \$7,961, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

2. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio administers two post-employment benefit plans. The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

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The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2011 the actuarially required allocation is .76%. For the fiscal years ended June 30, 2012, 2011 and 2010 WCE contributions to Medicare Part B were \$1,062, \$875 and \$595, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011 the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the fiscal years ended June 30, 2012, 2011 and 2010 WCE contributions to the Health Care Plan, including the surcharge were \$3,668, \$2,966 and \$2,134, respectively; 54.5% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010. \$1,670 representing the unpaid surcharge due for fiscal year 2012 is recorded as a liability within the respective funds.

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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, 2012.

2. Enrollment FTE

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

3. Student Attendance Data Review

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

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

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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 are calculated as 1.5% of the Fiscal Year 2012 Foundation payments received by WCE, from the State of Ohio. The total amount due ESCLEW from WCE for fiscal year 2012 was \$34,523, all of which was paid prior to June 30, 2012.

WCE entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2012. The agreement was for a period of one year, effective July 1, 2011. Management fees are calculated as 6.25% of the Fiscal Year 2012 Foundation and State Fiscal Stabilization Funds payment received by WCE from the State of Ohio plus a fixed fee of \$173,250. The total amount due from WCE for the fiscal year ending June 30, 2012 was \$316,895 all of which was paid prior to June 30, 2012.

XVI. Restricted for Debt Purposes, Net of Related Debt

Restricted for Debt Purposes, net of related debt represents the combination of Escrow Accounts and Bond Reserve Accounts, net of the outstanding portion of Bonds Payable used to finance these assets. The Bond Fund and the Expense Fund, which are included in Escrow Accounts, along with the Bond Reserve Accounts, which are being held for bond financing reserve requirements, will be funded until January 1, 2038.

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November 27, 2012

To the Board of Trustees
Constellation Schools: Westpark Community Elementary
4400 West 140th Street
Cleveland, OH 44135

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Constellation Schools: Westpark Community Elementary, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the School's sponsor, and is not intended to be and should not be used by anyone other than those specified parties

Rea & Associates, Inc.



Dave Yost • Auditor of State

WESTPARK COMMUNITY 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
FEBRUARY 12, 2013**