



Dave Yost • Auditor of State



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position .....	11
Statement of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows .....	13
Notes to the Financial Statements .....	15
Required Supplementary Information:	
Schedule of the WCM's Proportionate Share of the Net Pension Liability .....	47
Schedule of the WCM's Contributions - Pension .....	48
Schedule of the WCM's Proportionate Share of the Net OPEB Liability .....	51
Schedule of the WCM's Contributions - OPEB .....	52
Notes to the Required Supplementary Information.....	54
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	57

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Constellation Schools: Westpark Community Middle  
Cuyahoga County  
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 Middle, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2018, 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Constellation Schools: Westpark Community Middle, Cuyahoga County, Ohio as of June 30, 2018, 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.

**Emphasis of Matter**

As discussed in Note II to the financial statements, during the year ended June 30, 2018, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

**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 postemployment benefit liabilities and pension and other postemployment 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 21, 2018, 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.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 21, 2018

## **CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE**

### Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

The discussion and analysis of Constellation Schools: Westpark Community Middle's (WCM) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the financial performance of WCM as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the financial performance of WCM.

### **Financial Highlights**

Key financial highlights for 2018 include the following:

- In total, net position increased \$918,729 which represents a 31.6% increase from 2017. This is due to increased funding and decreased expenditures and net change in pension and OPEB liability during the year.
- Total assets and deferred outflows of resources increased \$55,553, which represents a 5.8% increase from 2017. This increase is due to increases in cash, prepaid expenses and deferred outflow of resources with decreases in due from other governments, prepaid expenses and capitalized assets.
- Liabilities and deferred inflows of resources decreased by \$863,176, which represents a 22.3% decrease from 2017. The decrease is from a combination of decreases in net pension and OPEB liability, equipment financing, and unearned revenue with increases in payroll payable, due to other governments and deferred inflows of resources.
- Operating revenues increased by \$29,098, which represents a 1.6% increase from 2017. This is a direct result of an increase in state foundation support due to increased enrollment plus increased revenues for services provided to other schools.
- Expenses decreased by \$1,599,504 which represents a 56.7% decrease from 2017. Operating expense changes are due to regular annual increases in salaries and changes in services provided to students with decreases in management services, supplies and materials, and recognition of change in net pension and OPEB liability.
- Non-operating revenues decreased by \$58,735, which represents a 17.0% decrease from 2017. This is due to a decrease of \$125,000 in private grants and contributions from 2017 as well as an increase of federal and state grants and interest income in 2018.

### **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 Supplemental Information. The Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

## Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

### Statement of Net Position

The Statement of Net Position looks at how well WCM has performed financially through June 30, 2018. This statement includes all of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary Statement of Net Position for fiscal years ended June 30, 2018 and 2017 for WCM.

	<u>2018</u>	<u>Restated 2017</u>	<u>Change</u>	<u>%</u>
<b>Assets and Deferred Outflow of Resources</b>				
Cash	\$260,585	\$223,341	\$37,244	16.7%
Other Current Assets	47,367	47,773	(406)	-0.8%
Non-Current Assets	27,205	27,205	0	0.0%
Capital Assets, Net	28,713	50,440	(21,727)	-43.1%
Deferred Outflow of Resources	<u>657,466</u>	<u>617,024</u>	<u>40,442</u>	<u>6.6%</u>
Total Assets and Deferred Outflow of Resources	<u>1,021,336</u>	<u>965,783</u>	<u>55,553</u>	<u>5.8%</u>
<b>Liabilities and Deferred Inflow of Resources</b>				
Current Liabilities	112,940	90,262	22,678	25.1%
Long-Term Liabilities	2,427,407	3,534,996	(1,107,589)	-31.3%
Deferred Inflow of Resources	<u>467,629</u>	<u>245,894</u>	<u>221,735</u>	<u>90.2%</u>
Total Liabilities and Deferred Inflow of Resources	<u>3,007,976</u>	<u>3,871,152</u>	<u>(863,176)</u>	<u>-22.3%</u>
<b>Net Position</b>				
Net Investment in Capital Assets Unrestricted	21,948	36,911	(14,963)	-40.5%
	<u>(2,008,588)</u>	<u>(2,942,280)</u>	<u>933,692</u>	<u>31.7%</u>
Total Net Position	<u>(\$1,986,640)</u>	<u>(\$2,905,369)</u>	<u>\$918,729</u>	<u>31.6%</u>



## CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(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, 2018.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Position for WCM for fiscal years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>Restated 2017</u>	<u>Change</u>	<u>%</u>
<b>Revenues</b>				
Foundation and Poverty Based Assistance Revenues	\$1,705,035	\$1,690,643	\$14,392	0.9%
Casino Tax Distributions	10,967	10,299	668	6.5%
Other Operating Revenues	<u>137,975</u>	<u>123,937</u>	<u>14,038</u>	<u>11.3%</u>
Total Operating Revenues	<u>1,853,977</u>	<u>1,824,879</u>	<u>29,098</u>	<u>1.6%</u>
Interest Income	47	12	35	291.7%
Private Grants and Contributions	0	125,000	(125,000)	-100.0%
Federal and State Grants	<u>286,939</u>	<u>220,709</u>	<u>66,230</u>	<u>30.0%</u>
Total Non-Operating Revenues	<u>286,986</u>	<u>345,721</u>	<u>(58,735)</u>	<u>-17.0%</u>
Total Revenues	<u>2,140,963</u>	<u>2,170,600</u>	<u>(29,637)</u>	<u>-1.4%</u>
<b>Expenses</b>				
Salaries	893,908	879,902	14,006	1.6%
Fringe Benefits	282,004	292,359	(10,355)	-3.5%
Change in Net Pension and OPEB Liability	(920,538)	638,608	(1,559,146)	-244.1%
Purchased Services	860,413	867,977	(7,564)	-0.9%
Materials and Supplies	56,578	60,812	(4,234)	-7.0%
Capital Outlay	206	13,949	(13,743)	-98.5%
Depreciation	21,727	38,595	(16,868)	-43.7%
Other Expenses	<u>27,936</u>	<u>29,536</u>	<u>(1,600)</u>	<u>-5.4%</u>
Total Expenses	<u>1,222,234</u>	<u>2,821,738</u>	<u>(1,599,504)</u>	<u>-56.7%</u>
Changes in Net Position	<u>918,729</u>	<u>(651,138)</u>	<u>1,569,867</u>	<u>241.1%</u>
Net Position: Beginning of the Year (Restated)	<u>(2,905,369)</u>	<u>(2,254,231)</u>	<u>(651,138)</u>	<u>-28.9%</u>
Net Position: at End of Year	<u>(\$1,986,640)</u>	<u>(\$2,905,369)</u>	<u>\$918,729</u>	<u>31.6%</u>

## CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

### Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

Overall, revenues decreased by \$29,637 from 2017 to 2018. The most significant revenue changes are an increase of \$66,230 in federal, a decrease of \$125,000 in contributions, and an increase of \$13,300 for services provided to other schools. Increases or decreases occurred in all other areas of revenue including materials fees and miscellaneous other revenues.

Expenses decreased by \$1,599,504 from 2017 to 2018. Salaries and Fringe Benefits increased \$3,651. Changes in Net Pension and OPEB Liability expense is due to recognition of pension and OPEB liabilities per GASB 68 and 75. Purchased services decreased \$7,564 due to a combination of changes in pupil services, management services, data services and equipment leases. Materials and Supplies decreased \$4,234 due to decreased purchases of workbooks in 2018. Capital Outlay decreased by \$13,743 due to purchases of instructional technology equipment that were not capitalized and depreciation decreased \$16,868 as a result of capitalized technology equipment becoming fully depreciated. Other Expenses decreased by \$1,600 from the prior year due to decreases in fundraising expenses and other miscellaneous expenses.

### Capital Assets

As of June 30, 2018, WCM had \$28,713 invested in technology and software, furniture and equipment, net of depreciation. This is a \$21,727 decrease from June 30, 2017.

The following schedule provides a summary of Capital Assets as of June 30, 2018 and 2017 for WCM.

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>%</u>
<b>Capital Assets (net of depreciation)</b>				
Technology and Software	\$13,326	\$32,998	(\$19,672)	-59.6%
Furniture and Equipment	15,387	17,442	(2,055)	-11.8%
Net Capital Assets	<u>\$28,713</u>	<u>\$50,440</u>	<u>(\$21,727)</u>	<u>-43.1%</u>

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

### Equipment Financing

In September 2015, WCM entered into a four-year lease for additional technology equipment. The lease values have been recorded as capital equipment to recognize the assets, and as capital equipment lease payable to recognize the lease debt. The outstanding principal value as of June 30, 2018 on the lease payable is \$4,877.

During fiscal year 2015, WCM secured a four-year loan with CF Bank to purchase \$12,098 of technology equipment. The equipment has been recorded as capital equipment to recognize the assets, and as loans payable to recognize the debt. The outstanding principal value as of June 30, 2018 on the loan payable is \$1,888.

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

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

The net pension and OPEB liability is the largest single liability reported by WCM at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, WCM adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of WCM's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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 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 liability and the net OPEB liability to equal WCM's proportionate share of each plan's collective:

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, WCM 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.

# CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE

## Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

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, WCM'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 inflows/outflows.

As a result of implementing GASB 75, WCM is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB. This implementation also had the effect of restating net position at June 30, 2017, from \$(2,309,146) to \$(2,905,369).

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$1,996 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$76,139. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	\$1,222,234
Negative OPEB Expense under GASB 75	76,139
2018 Contractually Required Contribution	3,005
Adjusted 2018 Program Expenses	<u>1,301,378</u>
Total 2017 Program Expenses under GASB 45	<u>2,225,515</u>
Decrease in Program Expenses not Related to OPEB	<u><u>\$(94,137)</u></u>

### Current Financial Issues

Constellation Schools: Westpark Community Middle opened in January of 2006. It has grown from 61 students, four teaching staff members and expenses of \$240,088 to a total of 215 students, 20 teaching staff members and expenses of \$1,222,234 (please note that the first year of operations was for only one-half of a school year). Grades 5 through 8 were split off from Constellation Schools: Westpark Community Elementary (WCE) to form Constellation Schools: Westpark Community Middle. This is providing more flexibility in the curriculum for each student. During the 2009 fiscal year the school moved into a newly constructed addition to the building it occupies along with WCE.

## **CONSTELLATION SCHOOLS: WESTPARK COMMUNITY MIDDLE**

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(Unaudited)

The Board of Directors, school management and school staff continue to work diligently to ensure that WCM 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 WCM and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, M.A., CPA, by mail at Constellation Schools LLC, 5730 Broadview Road, Parma, Ohio 44134; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 216.712.7600; or by faxing 216.712.7601.

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**Constellation Schools: Westpark Community Middle**  
**Cuyahoga County, Ohio**  
**Statement of Net Position**  
**As of June 30, 2018**

**Assets:**

**Current Assets:**

Cash	\$260,585
Accounts Receivable	10,799
Prepaid Expenses	6,193
Due from Other Governments	30,375
<i>Total Current Assets</i>	<u>307,952</u>

**Non-Current Assets:**

Security Deposit	27,205
Capital Assets (Net of Accumulated Depreciation)	28,713
<i>Total Non-Current Assets</i>	<u>55,918</u>
<i>Total Assets</i>	<u>363,870</u>

**Deferred Outflow of Resources:**

Pension and OPEB (STRS & SERS)	657,466
<i>Total Deferred Outflow of Resources</i>	<u>657,466</u>
<i>Total Assets and Deferred Outflow of Resources</i>	<u>1,021,336</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	6,699
Interest Payable	29
Payroll Payable	90,773
Unearned Revenue	5,187
Due to Other Governments	4,494
Loan Payable	1,888
Capital Lease Equipment Payable	3,870
<i>Total Current Liabilities</i>	<u>112,940</u>

**Long Term Liabilities:**

Capital Lease Equipment Payable	1,007
Pension and OPEB (STRS & SERS)	2,426,400
<i>Total Long Term Liabilities</i>	<u>2,427,407</u>
<i>Total Liabilities</i>	<u>2,540,347</u>

**Deferred Inflow of Resources:**

Pension and OPEB (STRS & SERS)	467,629
<i>Total Deferred Inflow of Resources</i>	<u>467,629</u>
<i>Total Liabilities and Deferred Inflow of Resources</i>	<u>3,007,976</u>

**Net Position:**

Net Investment in Capital Assets	21,948
Unrestricted	<u>(2,008,588)</u>
<i>Total Net Position</i>	<u>(\$1,986,640)</u>

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

Constellation Schools: Westpark Community Middle  
Cuyahoga County, Ohio  
Statement of Revenues, Expenses and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2018

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$1,705,035
Casino Tax Distributions	10,967
Other Operating Revenues	<u>137,975</u>
<i>Total Operating Revenues</i>	<u>1,853,977</u>

**Operating Expenses:**

Salaries	893,908
Fringe Benefits	282,004
Change in Net Pension and OPEB	(920,538)
Purchased Services	860,413
Materials and Supplies	56,578
Capital Outlay	206
Depreciation	21,727
Other Operating Expenses	<u>27,372</u>
<i>Total Operating Expenses</i>	<u>1,221,670</u>

Operating Income	<u>632,307</u>
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**Non-Operating Revenues & Expenses:**

Interest Income	47
Interest Expense	(564)
Federal and State Grants	<u>286,939</u>
<i>Total Non-Operating Revenues &amp; Expenses</i>	<u>286,422</u>

Change in Net Position	<u>918,729</u>
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Net Position at Beginning of the Year - Restated (See Note II.3)	<u>(2,905,369)</u>
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Net Position at End of Year	<u><u>(\$1,986,640)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.



**Constellation Schools: Westpark Community Middle  
Cuyahoga County, Ohio  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2018**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$1,716,002
Cash Payments to Suppliers for Goods and Services	(1,221,471)
Cash Payments to Employees for Services	(863,621)
Other Operating Revenues	122,289
Net Cash Used for Operating Activities	<u>(246,801)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	<u>291,351</u>
Net Cash Provided by Noncapital Financing Activities	<u>291,351</u>

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

Equipment Lease Principal Payments	(3,629)
Equipment Lease Interest Payments	(444)
Equipment Loan Principal Payments	(3,135)
Equipment Loan Interest Payments	(145)
Net Cash Used for Capital and Related Financing Activities	<u>(7,353)</u>

**Cash Flows from Investing Activities**

Interest	<u>47</u>
Net Cash Provided by Investing Activities	<u>47</u>

Net Increase in Cash	37,244
Cash at Beginning of Year	<u>223,341</u>
Cash at End of Year	<u><u>\$260,585</u></u>

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

**(Continued)**

**Constellation Schools: Westpark Community Middle  
Cuyahoga County, Ohio  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2018  
(Continued)**

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

Operating Income	\$632,307
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**Adjustments to Reconcile Operating Income to  
Net Cash Used for Operating Activities:**

Depreciation	21,727
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Changes in Assets, Liabilities, Deferred Inflows of Resources  
and Deferred Outflows of Resources:

(Increase) in Accounts Receivable	(10,799)
Decrease in Prepaid Expenses	10,659
(Increase) in Due from Other Governments	(3,866)
(Increase) in Deferred Outflows - Pensions and OPEB	(40,442)
Increase in Accounts Payable	5,233
Increase in Payroll Payable	30,287
(Decrease) in Due to Other Governments	(6,923)
(Decrease) in Unearned Revenue	(4,888)
(Decrease) in Net Pension and OPEB Liability	(1,101,831)
Increase in Deferred Inflows - Pensions and OPEB Benefits	221,735

Total Adjustments	(879,108)
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Net Cash Used for Operating Activities	(\$246,801)
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The accompanying notes to the financial statements are an integral part of this statement.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**I. Description of the School and Reporting Entity**

Constellation Schools: Westpark Community Middle (WCM) is a nonprofit corporation established on December 5, 2003 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under § 501(c)(3) of the Internal Revenue Code. On March 28, 2006, WCM 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 WCM. WCM, which is part of Ohio's education program, is independent of any school district. WCM may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of WCM.

WCM was approved for operation as Garfield Heights Community School (GHCS) under a contract dated January 20, 2004 between the Governing Authority (Board) of WCM and the Lucas County Educational Service Center (LCESC). On August 2005 WCM (as GHCS) entered in to a contract with Buckeye Community Hope Foundation (BCHF) to replace LCESC as the sponsor. The contract with BCHF has been renewed with a current expiration date of June 30, 2020. Sponsorship fees payable to BCHF are calculated as 3% of the Foundation payments received by WCM, from the State of Ohio. See Note XIII for further discussion of the sponsor services.

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

WCM 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 WCM instructional facility staffed by 20 certificated full time teaching personnel and 5 support staff that provided services to 215 students. During 2018, the board members for WCM also serve as the board for Constellation Schools: Lorain Community Middle, Constellation Schools: Old Brooklyn Community Middle and Constellation Schools: Eastside Arts Academy.

**II. Summary of Significant Accounting Policies**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**1. Basis of Presentation**

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

**2. Measurement Focus and Basis of Accounting**

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

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

**3. Implementation of New Accounting Principles**

For the fiscal year ended June 30, 2018, WCM has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

---

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of WCM.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in WCM's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of WCM.

Net Position, June 30, 2017	\$ (2,309,146)
Adjustments:	
Net OPEB Liability	(598,219)
Deferred Outflow-Payments Subsequent to Measurement Date	<u>1,996</u>
Restated Net Position, July 1, 2017	<u>\$ (2,905,369)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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Other than employer contributions subsequent to the measurement date, WCM made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**4. Cash**

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

**5. Budgetary Process**

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

**6. Due From Other Governments**

Moneys due WCM for the year ended June 30, 2018 are recorded as Due From Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

**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. Depreciation of technology and software, furniture and equipment is computed using the straight line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets or less. Estimated useful lives are as follows:

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**8. Intergovernmental Revenues**

WCM 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. WCM 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 2018 school year totaled \$2,002,941.

**9. Private Grants and Contributions**

WCM receives grants and contributions from private sources to support the school's programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. WCM did not receive any private grants and contributions during the year.

**10. Compensated Absences**

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

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

**11. Pensions and Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

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

A deferred outflow of resources is a consumption of assets by WCM 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 X and Note XI.

A deferred inflow of resources is an acquisition of assets by WCM 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 X and Note XI.

**16. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. 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 outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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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 WCM or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

WCM 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, 2018, the carrying amount of WCM's deposits totaled \$260,585 and its bank balance was \$271,952. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2018, \$21,952 of the bank balance was exposed to custodial risk as discussed below, while \$250,000 of the bank balance was covered by the Federal Depository Insurance Corporation.

WCM 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 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 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 OPC will collateralize utilizing the specific pledge method at one hundred and five percent.

**IV. Purchased Services**

Purchased Services include the following:

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

---

Instruction	\$55,663
Pupil Support Services	77,663
Staff Development & Support	98,171
Administrative	323,320
Occupancy Costs	243,188
Food Services	61,860
Student Activities	548
Total Purchased Services	<u>\$860,413</u>

**V. Capital Assets**

A summary of capital assets at June 30, 2018 follows:

	Balance 7/1/17	Additions	Deletions	Balance 6/30/18
Capital Assets Being Depreciated				
Technology and Software	\$152,635	\$0	(\$71,589)	\$81,046
Furniture and Equipment	<u>86,640</u>	<u>0</u>	<u>0</u>	<u>86,640</u>
Total Capital Assets Being Depreciated	<u>239,275</u>	<u>0</u>	<u>(71,589)</u>	<u>167,686</u>
Less Accumulated Depreciation:				
Technology and Software	(119,637)	(19,672)	71,589	(67,720)
Furniture and Equipment	<u>(69,198)</u>	<u>(2,055)</u>	<u>0</u>	<u>(71,253)</u>
Total Accumulated Depreciation	<u>(188,835)</u>	<u>(21,727)</u>	<u>71,589</u>	<u>(138,973)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$50,440</u>	<u>(\$21,727)</u>	<u>\$0</u>	<u>\$28,713</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**VI. Loan Payable**

During fiscal year 2015, WCM secured a four-year loan with CF Bank to purchase \$12,098 of technology equipment (accumulated depreciation as of June 30, 2018 is \$10,460). The loan is for a term of 4 years with interest at 3.99% per annum. Interest and principal are paid monthly with loan maturity occurring on January 15, 2019. Equipment purchased with loan proceeds has been capitalized. Principal payments during fiscal year 2018 totaled \$3,135 and interest paid totaled \$145.

Future minimum loan payments for principal and interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	<u>\$1,888</u>	<u>\$26</u>	<u>\$1,914</u>
Total	<u><u>\$1,888</u></u>	<u><u>\$26</u></u>	<u><u>\$1,914</u></u>

**VII. Capital Equipment Lease Payable**

In September 2015, WCM entered into a four-year lease with Winthrop Resources for additional technology equipment. The 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 \$14,321 have been capitalized (accumulated depreciation as of June 30, 2018 is \$10,144). 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 2018 totaled \$3,629 and interest paid totaled \$444.

Future minimum lease payments for principal and interest under both capital leases are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	<u>\$3,870</u>	<u>\$202</u>	<u>\$4,072</u>
2020	<u>1,007</u>	<u>11</u>	<u>1,018</u>
Total	<u><u>\$4,877</u></u>	<u><u>\$213</u></u>	<u><u>\$5,090</u></u>

**VIII. Operating Lease**

WCM leases its facility from Constellation Schools: Westpark Community Elementary (WCE) under a one-year sub-lease agreement with the ability to renew annually. Under the terms of the sub-lease WCM made monthly lease payments of \$19,792. WCE charged WCM a total of \$237,500 for rent during the year. As of June 30, 2018, all monies due WCE from WCM have been paid.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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On April 10, 2014 Constellation Schools: Westpark Community Elementary (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. 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. Effective with the closing, ownership of the real property occupied by WCE and WCM reverted back to WCE. The sublease between WCE and WCM remains in effect. As part of the bond financing arrangement, WCM, as lessor, is required to provide various reports with WCE to the trustee.

The Bond Indenture requires WCE to meet certain covenants. As of June 30, 2018 WCE is in compliance with those covenants. The Bond Indenture also requires all of the participating schools to meet certain covenants. As of June 30, 2018 two 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. and in compliance with those covenants.

**IX. Risk Management**

**1. Property and Liability Insurance**

WCM is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2018, WCM 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 \$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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**2. Workers' Compensation**

WCM makes premium payments to the Ohio Workers' Compensation System for employee injury coverage. There have been two claims filed by WCM employees with the Ohio Workers' Compensation System between January 1, 2013 and June 30, 2018. The total payments made for these claims have been \$2,759. In the opinion of management, these claims will not have a material adverse effect on the overall financial position of WCM as June 30, 2018.

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

WCM provides medical, dental, vision and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by WCM for the fiscal year is \$133,437.

**X. Defined Benefit Pension Plans**

**1. Net Pension Liability**

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

The net pension liability represents WCM'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 WCM's obligation for this liability to annually required payments. WCM cannot control benefit terms or the manner in which pensions are financed; however, WCM does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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

Plan Description – WCM 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

---

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and WCM is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, 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 2018.

WCM contractually required contribution to SERS was \$27,043 for fiscal year 2018.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

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, 2018, plan members were required to contribute 14 percent of their annual covered salary. WCM was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

WCM's contractually required contribution to STRS was \$106,659 for fiscal year 2018.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. WCM'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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00751288%	0.00644786%	
Prior Measurement Date	0.00832158%	0.00693379%	
Change in Proportionate Share	<u>-0.00080870%</u>	<u>-0.00048593%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 448,878	\$ 1,531,703	\$ 1,980,581
Pension Expense	\$ (29,148)	\$ (678,544)	\$ (707,692)

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

At June 30, 2018 WCM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 19,321	\$ 59,147	\$ 78,468
Changes of Assumptions	23,212	335,000	358,212
Changes in Proportion and Differences between WCM Contributions and Proportionate Share of Contributions	13,710	55,846	69,556
WCM Contributions Subsequent to the Measurement Date	27,043	106,659	133,702
<b>Total Deferred Outflows of Resources</b>	<b>\$ 83,286</b>	<b>\$ 556,652</b>	<b>\$ 639,938</b>
<b>Deferred Inflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 0	\$ 12,345	\$ 12,345
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,130	50,548	52,678
Changes in Proportion and Differences between WCM Contributions and Proportionate Share of Contributions	44,988	268,830	313,818
<b>Total Deferred Inflows of Resources</b>	<b>\$ 47,118</b>	<b>\$ 331,723</b>	<b>\$ 378,841</b>

\$133,702 reported as deferred outflows of resources related to pension resulting from WCM contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ 4,988	\$ (18,193)	\$ (13,205)
2020	18,091	50,575	68,666
2021	(3,489)	87,802	84,313
2022	(10,465)	(1,914)	(12,379)
	<b>\$ 9,125</b>	<b>\$ 118,270</b>	<b>\$ 127,395</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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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 target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

**Sensitivity of WCM'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 WCM's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
WCMs Proportionate Share of the Net Pension Liability	\$ 622,926	\$ 448,878	\$ 303,077

**6. Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
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
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees 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. Post-retirement disabled 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, 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:

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<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	1.00	2.25
Total	<u>100.00 %</u>	

\*The target allocation percentage is effective as of July 1, 2017. 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, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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, 2017. 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, 2017.

**Sensitivity of WCM's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents WCM's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what WCM'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:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
WCMs Proportionate Share of the Net Pension Liability	\$ 2,195,644	\$ 1,531,703	\$ 972,432

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**1. Net Other Post-Employment Benefits Liability**

The net OPEB liability reported on the statement of net position represents a 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 liability represents WCM'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 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 WCM's obligation for this liability to annually required payments. WCM cannot control benefit terms or the manner in which OPEB are financed; however, WCM does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation 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 liability. Resulting adjustments to the net OPEB 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 liability* on the accrual basis of accounting. 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 - WCM 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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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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.

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 2018, .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 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, WCM's surcharge obligation was \$2,003.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. WCM's



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

contractually required contribution to SERS was \$3,005 for fiscal year 2018. Of this amount \$2,003 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, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. WCM’s proportion of the net OPEB liability was based on WCM’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			
Current Measurement Date	0.00723794%	0.00644786%	
Prior Measurement Date	0.00797783%	0.00693379%	
Change in Proportionate Share	-0.00073989%	-0.00048593%	
Proportionate Share of the Net OPEB Liability	\$ 194,247	\$ 251,572	\$ 445,819
OPEB Expense	\$ 4,340	\$ (80,479)	\$ (76,139)

At June 30, 2018, WCM reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 0	\$ 14,523	\$ 14,523
WCM Contributions Subsequent to the Measurement Date	3,005	0	3,005
<b>Total Deferred Outflows of Resources</b>	<b>\$ 3,005</b>	<b>\$ 14,523</b>	<b>\$ 17,528</b>
<b>Deferred Inflows of Resources</b>			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 513	\$ 10,753	\$ 11,266
Changes of Assumptions	18,433	20,265	38,698
Changes in Proportionate Share and Differences between WCM Contributions and Proportionate Share of Contributions	16,549	22,275	38,824
<b>Total Deferred Inflows of Resources</b>	<b>\$ 35,495</b>	<b>\$ 53,293</b>	<b>\$ 88,788</b>

\$3,005 reported as deferred outflows of resources related to OPEB resulting from WCM's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (12,803)	\$ (7,358)	\$ (20,161)
2020	(12,803)	(7,358)	(20,161)
2021	(9,760)	(7,358)	(17,118)
2022	(129)	(7,359)	(7,488)
2023	0	(4,670)	(4,670)
Thereafter	0	(4,667)	(4,667)
	<b>\$ (35,495)</b>	<b>\$ (38,770)</b>	<b>\$ (74,265)</b>

**5. Actuarial Assumptions – SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 the future.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, 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
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 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 most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several 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 log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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 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 Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 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 state statute contribution rate of 2.00 percent of projected covered employee 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 3.56 percent, as of June 30, 2017 (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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

***Sensitivity of WCM'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 of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
WCMs Proportionate Share of the Net OPEB Liability	\$ 234,578	\$ 194,247	\$ 162,295
	1% Decrease	Current Trend Rate	1% Increase
WCMs Proportionate Share of the Net OPEB Liability	\$ 157,617	\$ 194,247	\$ 242,728

**6. Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, 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
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 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.

Also since the prior measurement date, 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. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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>	

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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\*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 actual rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of 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 blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**Sensitivity of WCM's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
WCMs Proportionate Share of the Net OPEB Liability	\$ 337,731	\$ 251,572	\$ 183,478
	1% Decrease	Current Trend Rate	1% Increase
WCMs Proportionate Share of the Net OPEB Liability	\$ 174,781	\$ 251,572	\$ 352,637

**XII. Contingencies**

**1. Grants**

WCM received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of WCM. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of WCM at June 30, 2018.

**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 WCM for fiscal year 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of WCM.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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In addition, WCM's contracts with their Sponsor, Buckeye Community Hope Foundation and their Management company, Constellation Schools require that a portion of their fees be calculated as a percentage of Foundation revenues received by WCM from the State (See Note XIII). As discussed above, FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 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, WCM.

**XIII. Sponsorship and Management Agreements**

WCM entered into an agreement with Buckeye Community Hope Foundation (BCHF) to provide sponsorship and oversight services as required by law. The agreement is effective September 18, 2005 and was renewed to continue through June 30, 2020. Sponsorship fees are calculated as 3% of the Fiscal Year 2018 Foundation payments received by WCM, from the State of Ohio. The total amount due from WCM for fiscal year 2018 was \$49,606 all of which was paid prior to June 30, 2018.

WCM entered into an agreement with Constellation Schools (CS) to provide legal, financial, and business management services for fiscal year 2018. The agreement was for a period of one year, effective July 1, 2017. Management fees are calculated as 6.25% of the Fiscal Year 2018 Foundation payment received by WCM from the State of Ohio plus a fixed fee of \$122,500. The total amount due from WCM for the fiscal year ending June 30, 2018 was \$228,476 all of which was paid prior to June 30, 2018.

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**Constellation Schools: West Park Community Middle**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the WCM's Proportionate Share of the Net Pension Liability*  
*Last Five Fiscal Years (1)*

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>School Employees Retirement System (SERS)</b>					
WCM's Proportion of the Net Pension Liability	0.00751288%	0.00832158%	0.00779610%	0.00828389%	0.00828389%
WCM's Proportionate Share of the Net Pension Liability	\$ 448,878	\$ 609,063	\$ 444,853	\$ 419,243	\$ 492,616
WCM's Covered Payroll (2)	\$ 243,293	\$ 252,400	\$ 129,742	\$ 165,880	\$ 41,402
WCM's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	184.50%	241.31%	342.88%	252.74%	1189.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<b>State Teachers Retirement System (STRS)</b>					
WCM's Proportion of the Net Pension Liability	0.00644786%	0.00693379%	0.00657589%	0.00792374%	0.00792374%
WCM's Proportionate Share of the Net Pension Liability	\$ 1,531,703	\$ 2,320,949	\$ 1,817,384	\$ 1,927,328	\$ 2,295,820
WCM's Covered Payroll (2)	\$ 708,814	\$ 669,286	\$ 639,900	\$ 717,685	\$ 742,954
WCM's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.09%	346.78%	284.01%	268.55%	309.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 2018 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.

**Constellation Schools: West Park Community Middle**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the WCM's Contributions - Pension*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>School Employees Retirement System (SERS)</b>				
Contractually Required Contribution	\$ 27,043	\$ 34,061	\$ 35,336	\$ 17,100
Contributions in Relation to the Contractually Required Contribution	<u>(27,043)</u>	<u>(34,061)</u>	<u>(35,336)</u>	<u>(17,100)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCM's Covered Payroll (1)	\$ 200,319	\$ 243,293	\$ 252,400	\$ 129,742
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<b>State Teachers Retirement System (STRS)</b>				
Contractually Required Contribution	\$ 106,659	\$ 99,234	\$ 93,700	\$ 89,586
Contributions in Relation to the Contractually Required Contribution	<u>(106,659)</u>	<u>(99,234)</u>	<u>(93,700)</u>	<u>(89,586)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCM's Covered Payroll (1)	\$ 761,850	\$ 708,814	\$ 669,286	\$ 639,900
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 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 22,991	\$ 5,730	\$ 4,245	\$ 3,971	\$ 3,826	\$ 5,472
<u>(22,991)</u>	<u>(5,730)</u>	<u>(4,245)</u>	<u>(3,971)</u>	<u>(3,826)</u>	<u>(5,472)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 165,880	\$ 41,402	\$ 31,561	\$ 31,591	\$ 28,257	\$ 55,610
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$ 93,299	\$ 96,584	\$ 81,684	\$ 72,369	\$ 66,085	\$ 61,823
<u>(93,299)</u>	<u>(96,584)</u>	<u>(81,684)</u>	<u>(72,369)</u>	<u>(66,085)</u>	<u>(61,823)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 717,685	\$ 742,954	\$ 628,338	\$ 556,685	\$ 508,346	\$ 475,562
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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**Constellation Schools: Old Brooklyn Community Middle**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the OBCM's Proportionate Share of the Net OPEB Liability*  
*Last Two Fiscal Years (1)*

	<u>2018</u>	<u>2017</u>
<b><i>School Employees Retirement System (SERS)</i></b>		
OBCM's Proportion of the Net OPEB Liability	0.00522544%	0.00440476%
OBCM's Proportionate Share of the Net OPEB Liability	\$ 140,237	\$ 125,552
OBCM's Covered Payroll	\$ 181,021	\$ 170,479
OBCM's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	77.47%	73.65%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<b><i>State Teachers Retirement System (STRS)</i></b>		
OBCM's Proportion of the Net OPEB Liability	0.00643832%	0.00731063%
OBCM's Proportionate Share of the Net OPEB Liability	\$ 251,200	\$ 390,974
OBCM's Covered Payroll	\$ 707,764	\$ 760,143
OBCM's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	51.43%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	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 Middle School**  
**Cuyahoga County, Ohio**  
*Required Supplementary Information*  
*Schedule of the WCM's Contributions - OPEB*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>School Employees Retirement System (SERS)</b>				
Contractually Required Contribution (1)	\$ 3,005	\$ 1,996	\$ 1,710	\$ 1,604
Contributions in Relation to the Contractually Required Contribution	<u>(3,005)</u>	<u>(1,996)</u>	<u>(1,710)</u>	<u>(1,604)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
WCM's Covered Payroll (2)	\$ 200,319	\$ 243,293	\$ 252,400	\$ 129,742
OPEB Contributions as a Percentage of Covered Payroll (1)	1.50%	0.82%	0.68%	1.24%
<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>
WCM's Covered Payroll (2)	\$ 761,850	\$ 708,814	\$ 669,286	\$ 639,900
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 2018 amounts have been updated, however, information was not available to update fiscal year 2015 and prior.



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 758	\$ 742	\$ 846	\$ 794	\$ 511	\$ 2,103
<u>(758)</u>	<u>(742)</u>	<u>(846)</u>	<u>(794)</u>	<u>(511)</u>	<u>(2,103)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 165,880	\$ 41,402	\$ 31,561	\$ 31,591	\$ 28,257	\$ 55,610
0.46%	1.79%	2.68%	2.51%	1.81%	3.78%
\$ 7,177	\$ 7,430	\$ 6,283	\$ 5,567	\$ 5,083	\$ 4,756
<u>(7,177)</u>	<u>(7,430)</u>	<u>(6,283)</u>	<u>(5,567)</u>	<u>(5,083)</u>	<u>(4,756)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 717,685	\$ 742,954	\$ 628,338	\$ 556,685	\$ 508,346	\$ 475,562
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

**Constellation Schools: Westpark Community Middle  
Cuyahoga County**  
*Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018*

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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 the following:
  - 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 the following:
  - 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 disable member was updated to the following:
  - 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***

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

**Constellation Schools: Westpark Community Middle  
Cuyahoga County**

*Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018*

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**Note 2 - Net OPEB Liability**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

***Changes in Assumptions – STRS***

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 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.

Also 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.

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# Dave Yost • Auditor of State

## 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 Middle  
Cuyahoga County  
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 Middle, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2018, 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 21, 2018, wherein we noted the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

### ***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 21, 2018



# Dave Yost • Auditor of State

**WESTPARK COMMUNITY MIDDLE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 27 2018**