

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

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2008**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Constellation Schools: Puritas Community Middle  
15204 Puritas Avenue  
Cleveland, Ohio 44135

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Puritas Community Middle, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 22, 2009

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

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 26, 2008

The Board of Trustees  
Constellation Schools: Puritas Community Middle  
15204 Puritas Avenue  
Cleveland, Ohio 44135

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Constellation Schools: Puritas Community Middle (the School), as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

*Hea & Associates, Inc.*



## **CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**

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

The discussion and analysis of Constellation Schools: Puritas Community Middle's (PTCM) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the financial performance of PTCM 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 PTCM.

### **Financial Highlights**

Key financial highlights for 2008 include the following:

- The school began operations on September 28, 2006, during the 2007 school-year by enrolling grades 5 and 6 from Constellation Schools: Puritas Community Elementary (PTCE). The middle school subleases space and utilized some staff from PTCE.
- In total, net assets decreased \$21,267, which represents a 4.3% decrease from 2007. This decrease is due to increases in staffing, student services and facility costs to accommodate the enrollment growth of the school when compared to 2007.
- Total assets decreased \$97,157, which represents a 16.6% decrease from 2007. This decrease is due in large part to reduced cash balances from the pay down of vendor payables during the year and increased expenditures for staff, services and facilities.
- Liabilities decreased \$75,890, which represents an 88.1% decrease from 2007. Current liabilities at fiscal year 2007 were paid off during fiscal year 2008.
- Operating revenues increased \$164,265, which represents a 65.9% increase from 2007. The majority of the increase is from the State Foundation and Poverty Based Assistance program and is based upon increased enrollment from 2007.
- Operating expenses increased \$333,751, which represents a 156.0% increase from 2007. Significant increases in salaries and benefits, purchased services, capital outlay and depreciation occurred as a direct result to the increased enrollment over the 2007 year.
- Non-operating revenues decreased \$350,006, which represents a 75.6% decrease from 2007. This is due to receipt of a one-time \$230,000 private grant in 2007 and receipt of \$226,281 from a federal charter school start-up grant in 2007 and the remaining \$73,719 in 2008.

### **Using this Financial Report**

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

**CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**

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

**Statement of Net Assets**

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

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

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash	\$ 276,096	\$ 512,892
Other Current Assets	6,552	928
Capital Assets	<u>204,557</u>	<u>70,542</u>
Total Assets	<u>487,205</u>	<u>584,362</u>
<b>Liabilities</b>		
Current Liabilities	<u>10,247</u>	<u>86,137</u>
Total Liabilities	<u>10,247</u>	<u>86,137</u>
<b>Net Assets</b>		
Investments in capital assets net of related debt	204,557	70,542
Unrestricted	<u>272,401</u>	<u>427,683</u>
Net Assets	<u>\$ 476,958</u>	<u>\$ 498,225</u>

Net Assets decreased \$21,267, due primarily to increases in staffing, student services and facility costs to accommodate the enrollment growth in the school. For assets, cash decreased \$236,796; due from other governments increased \$2,361; accounts receivable increased \$3,263, and net capital assets increased \$134,015 from 2007. For liabilities, accounts payable decreased \$80,753, accrued wages and benefits increased \$1,420 and deferred revenues increased \$3,443 from 2007.

**Statement of Revenues, Expenses and Changes in Net Assets**

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

## CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE

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

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

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
Foundation and Poverty		
Based Assistance Revenues	\$ 399,376	\$ 241,421
Other Operating Revenues	<u>14,080</u>	<u>7,770</u>
Operating Revenues	<u>413,456</u>	<u>249,191</u>
Interest	7,552	6,286
Private Grants and Contributions	1,040	230,000
Federal and State Grants	<u>104,429</u>	<u>226,741</u>
Non-Operating Revenues	<u>113,021</u>	<u>463,027</u>
Total Revenues	<u>526,477</u>	<u>712,218</u>
<b>Expenses</b>		
Salaries	128,132	44,433
Fringe Benefits	40,953	13,268
Purchased Services	226,605	83,661
Materials and Supplies	46,042	62,315
Capital Outlay	36,947	6,790
Depreciation	59,086	0
Other Operating Expenses	<u>9,979</u>	<u>3,526</u>
Total Expenses	<u>547,744</u>	<u>213,993</u>
<b>Net Income/(Loss)</b>	(21,267)	498,225
Net Assets at Beginning of Year	<u>498,225</u>	<u>0</u>
<b>Net Assets at End of Year</b>	<u>\$ 476,958</u>	<u>\$ 498,225</u>

The school began operation on September 28, 2006 by enrolling 5<sup>th</sup> and 6<sup>th</sup> graders from Constellation Schools: Puritas Community School. Prior to that time a state start-up grant of \$28,950 was received to purchase office furniture and to pay for administrative expenses associated with setting up a new school.

Net Assets increased in both fiscal years ending June 30, 2007 and 2008. This is due to increased enrollment for both years as well as an unexpended grant received in 2007. Although certain expenditures such as salaries will increase or decrease as the number of classes increase and decrease other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received for capital improvements to our building and to purchase various educational programs and equipment.

## CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE

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

Overall, revenues decreased by \$185,741 from 2007 to 2008. The most significant revenue item, Foundation and Poverty Based Assistance funds, show an increase from 2007 of \$157,955 due to increased enrollment from 2007. Revenue decreases totaling \$351,272 occurred in Federal and State Grants and Private Grants. PTCM received a \$230,000 private grant in 2007. The school also received the Federal Charter School Start-Up Grant funds during the 2007 fiscal year with the final disbursement occurring in 2008.

In total expenses increased from 2007 to 2008 because of increased enrollment from 2007. Salaries and Fringe Benefits increased \$111,384 due to personnel additions and annual increases. Purchased services increased \$142,944 due to additional pupil support services, administrative services and occupancy costs. Materials and Supplies decreased \$16,273 due to substantial purchases of text books, classroom supplies and Capital Outlay increased \$30,157, due to purchases of furniture and equipment for classroom expansion during 2007. Depreciation increased \$59,086 because equipment and furniture was first placed into service during 2008. Other Operating Expenses increased \$6,453 due to increases in audit fees, insurances and other expenses associated with the growth of the school.

### Capital Assets

As of June 30, 2008, PTCM had \$204,557 invested in computers and office equipment, furniture and equipment, and leasehold improvements, net of depreciation. This is a \$134,015 increase over June 30, 2007.

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

	<u>2008</u>	<u>2007</u>
<b>Capital Assets (net of depreciation)</b>		
Leasehold Improvements	\$ 20,732	\$ 0
Computers and Office Equipment	128,794	14,985
Furniture, Equipment & Materials	<u>55,031</u>	<u>55,557</u>
Net Fixed Assets	<u>\$ 204,557</u>	<u>\$ 70,542</u>

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

## **CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**

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

### **Current Financial Issues**

Constellation Schools: Puritas Community Middle opened on September 28, 2006. In its second year of operations it has grown from 40 students, two teaching staff members and expenses of \$213,993 to a total of 59 students, five teaching staff members and expenses of \$547,744. Grades 5 and 6 were split off from Puritas Community School to form Constellation Schools: Puritas Community Middle. This is providing more flexibility in the curriculum for each student, and improving our options for limited facilities space. The increase in enrollment for the 2008 school year met the plan for the school setting the foundation for future growth. Current projections are for the school to grow to 160 students by the 2013 school year. As the School grows to maturity and full enrollment we will continue to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during this initial year.

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

This financial report is designed to provide our constituents with a general overview of the finances for PTCM and to show accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer, by mail at Constellation Schools, 5983 West 54<sup>th</sup> Street, Parma, Ohio 44129; by e-mail at [babb.thomas@constellationschools.com](mailto:babb.thomas@constellationschools.com); by calling 440.845.7688; or by faxing 440.845.7689.

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**Constellation Schools: Puritas Community Middle  
Cuyahoga County  
Statement of Net Assets  
As of June 30, 2008**

**Assets:**

**Current Assets:**

Cash	\$276,096
Due from Other Governments	2,802
Accounts Receivable	3,750
	282,648
<i>Total Current Assets</i>	<i>282,648</i>

**Non-Current Assets:**

Capital Assets (Net of Accumulated Depreciation)	204,557
	204,557
<i>Total Non-Current Assets</i>	<i>204,557</i>
<i>Total Assets</i>	<i>487,205</i>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	4,934
Accrued Wages and Benefits	1,420
Deferred Revenue	3,893
	10,247
<i>Total Liabilities</i>	<i>10,247</i>

**Net Assets:**

Investment in capital assets, net of related debt	204,557
Unrestricted	272,401
	476,958
<i>Total Net Assets</i>	<i>476,958</i>

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

**Constellation Schools: Puritas Community Middle  
Cuyahoga County  
Statement of Revenues, Expenses and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2008**

**Operating Revenues:**

Foundation and Poverty Based Assistance Revenues	\$399,376
Other Operating Revenues	14,080
	413,456

**Operating Expenses:**

Salaries	128,132
Fringe Benefits	40,953
Purchased Services	226,605
Materials and Supplies	46,042
Capital Outlay	36,947
Depreciation	59,086
Other Operating Expenses	9,979
	547,744
Operating Loss	(134,288)

**Non-Operating Revenues:**

Interest	7,552
Federal and State Grants	104,429
Private Grants and Contributions	1,040
	113,021
Net Loss	(21,267)
Net Assets at Beginning of the Year	498,225
Net Assets at End of Year	\$476,958

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



**Constellation Schools: Puritas Community Middle  
Cuyahoga County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$399,376
Cash Payments to Suppliers for Goods and Services	(442,460)
Cash Payments to Employees for Services	(126,732)
Other Operating Revenues	<u>14,260</u>
 Net Cash Used for Operating Activities	 <u>(155,556)</u>

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions Received	1,040
Federal and State Grants Received	<u>103,270</u>
 Net Cash Provided by Noncapital Financing Activities	 <u>104,310</u>

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

Payments for Capital Acquisitions	<u>(193,102)</u>
 Net Cash Used for Capital and Related Financing Activities	 <u>(193,102)</u>

**Cash Flows from Investing Activities:**

Interest	<u>7,552</u>
 Net Cash Provided by Investing Activities	 <u>7,552</u>
 Net Decrease in Cash	 (236,796)
Cash at Beginning of Year	<u>512,892</u>
 Cash at End of Year	 <u><u>\$276,096</u></u>

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

**Constellation Schools: Puritas Community Middle  
Cuyahoga County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008  
(Continued)**

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

Operating Loss	(\$134,288)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Used for Operating Activities:**

Depreciation	59,086
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Changes in Assets and Liabilities:

(Increase) in Due from Other Governments	(1,201)
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(Increase) in Accounts Receivable	(3,263)
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(Decrease) in Accounts Payable	(80,753)
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Increase in Accrued Wages and Benefits	1,420
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Increase in Deferred Revenue	3,443
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Total Adjustments	(21,268)
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Net Cash Used for Operating Activities	(\$155,556)
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The accompanying notes to the financial statements are an integral part of this statement.

**CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**  
**- A Community School -**  
**Cuyahoga County**

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

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

**Constellation Schools: Puritas Community Middle** (PTCM), originally Newburgh Heights Community School, subsequently renamed Detroit-Shoreway Community School (DSCS) and then Puritas Community Middle School, is a nonprofit corporation established on August 20, 1999 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 November 1, 2007, PTCM was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of PTCM. PTCM, which is part of Ohio's education program, is independent of any school district. PTCM may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PTCM.

PTCM, (as DSCS) was approved for operation under a contract dated January 20, 2004 between the Governing Authority of PTCM (as DSCS) and the Lucas County Educational Service Center (LCESC) (the Sponsor). On July 22, 2005 PTCM (as DSCS) entered into a contract with Buckeye Community Hope Foundation (BCHF) to have BCHF replace LCESC as their sponsor. The contract was reissued September 6, 2006 as PTCM to open a school in the fall of 2006. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. PTCM entered into an agreement with Constellation Schools (CS) to provide management services for the fiscal year. See Note XI for further discussion of this management agreement. On March 27, 2007 the school name was changed to Constellation Schools: Puritas Community Middle.

PTCM 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 PTCM instructional facility staffed by five certificated full time teaching personnel who provided services to 59 students. During 2008, the board members for PTCM also serve as the board for Constellation Schools: Puritas Community Elementary.

**II. Summary of Significant Accounting Policies**

The financial statements of PTCM have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The

**CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**

**- A Community School -  
Cuyahoga County**

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

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Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. PTCM also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of PTCM's accounting policies are described below.

**1. Basis of Presentation**

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

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

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. PTCM 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 PTCM 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 PTCM must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to PTCM on a reimbursement basis. Expenses are recognized at the time they are incurred.

**CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**  
**- A Community School -**  
**Cuyahoga County**

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

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**3. Cash**

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

**4. Budgetary Process**

Pursuant to Ohio Revised Code Chapter 5705.391 PTCM 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. PTCM will from time to time adopt budget revisions as necessary.

**5. Due From Other Governments and Accounts Receivable**

Monies due PTCM for the year ended June 30, 2008 are recorded as Due From Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the monies to be due.

**6. Capital Assets and Depreciation**

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

All capital assets are depreciated. Depreciation of leasehold improvements, computers, office equipment and furniture and equipment is computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Estimated useful lives are as follows:

<b>Capital Asset Classification</b>	<b>Years</b>
Leasehold Improvements	3
Computers and Office Equipment	3
Furniture, Equipment and materials	10

**CONSTELLATION SCHOOLS: PURITAS COMMUNITY MIDDLE**  
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**Cuyahoga County**

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

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**7. Intergovernmental Revenues**

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

PTCM participated in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, PTCM was awarded \$300,000 in fiscal year 2007 to offset start-up costs of the School. During fiscal year 2008, the balance of \$73,719 from the award was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2008 school year totaled \$503,805.

**8. Private Grants and Contributions**

PTCM receives grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received in 2008 were \$1,040 and for 2007 were \$230,000.

**9. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar; therefore, PTCM 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. PTCM will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

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

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**10. Use of Estimates**

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

**11. Deferred Revenue**

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

**III. Deposits**

At fiscal year end June 30, 2008, the carrying amount of PTCM's deposits totaled \$276,096 and its bank balance was \$278,129. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, \$178,129 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

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

**IV. Purchased Services**

Purchased Services include the following:

Instruction	\$46,918
Pupil Support Services	27,149
Staff Development & Support	4,639
Administrative	74,190
Occupancy Costs	<u>73,709</u>
Total	<u>\$226,605</u>

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

**V. Capital Assets**

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

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 0	\$ 27,690	\$ 0	27,690
Computers/Office Equipment	14,985	159,973	0	174,958
Furniture and Equipment	<u>55,557</u>	<u>5,438</u>	<u>0</u>	<u>60,995</u>
Total Capital Assets				
Being Depreciated:	<u>70,542</u>	<u>193,101</u>	<u>0</u>	<u>263,643</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(0)	(6,958)	0	(6,958)
Computers/Office Equipment	(0)	(46,164)	0	(46,164)
Furniture and Equipment	<u>(0)</u>	<u>(5,964)</u>	<u>0</u>	<u>(5,964)</u>
Total Accumulated Depreciation:	<u>(0)</u>	<u>(59,086)</u>	<u>0</u>	<u>(59,086)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 70,542</u>	<u>\$ 134,015</u>	<u>\$ 0</u>	<u>\$ 204,557</u>

**VI. Operating Lease**

PTCM subleases its facilities from Constellation Schools: Puritas Community Elementary under a one-year lease effective July 1, 2007 through June 30, 2008. Monthly rent payments are set at \$5,500. Total rents paid to Constellation Schools: Puritas Community Elementary during the fiscal year totaled \$66,000.

**VII. Risk Management**

**1. Property and Liability Insurance**

PTCM is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2008, PTCM contracted with Indiana Insurance Company for all of its' insurance.



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General property and liability is covered at \$10,000,000 single occurrence limit and \$11,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Employee Crime, School Leaders Errors & Omissions, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

**2. Workers' Compensation**

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

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

PTCM provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. Total insurance benefits paid by PTCM for the fiscal year is \$18,201.

**VIII. Defined Benefit Pension Plans**

**1. State Teachers Retirement System**

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

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. DC and Combined Plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life,

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is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average of the members’ three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money-purchase benefit, members’ lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount.

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes

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later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

PTCM's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were \$14,204, \$5,776 and \$0, respectively; 98.72% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$182 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds. Member and employer contributions actually made for DB, DC and Combined Plan participants will be provided upon written request.

**2. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and PTCM is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. PTCM's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$2,642, \$0-,

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and \$-0-, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

**IX. Post-Employment Benefits Other than Pension Benefits**

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

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

Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. For the fiscal years ended June 30, 2008, 2007 and 2006 PTCM's contributions to post-employment health care were \$1,093, \$444 and \$0, respectively. 98.72% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$14 representing the unpaid contribution for fiscal year 2008 is recorded as a liability within the respective funds.

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

The Medicare Part B premium reimbursement plan reimburses eligible retirees for the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2007 (most recent information available) was \$93.50. SERS' reimbursement to retirees was \$45.50. The Retirement Board, with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2007 (most recent information available) the actuarially required allocation was .68%. For the fiscal years ended June 30, 2008, 2007 and 2006 PTCM's contributions to Medicare Part B were \$128, \$-0- and \$-0-, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

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

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

For fiscal years ended June 30, 2008, 2007 and 2006 PTCM contributions to the Health Care Plan, including the surcharge were \$911, \$-0- and \$-0-, respectively; 68.76% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$285 representing the unpaid surcharge due for fiscal year 2008 is recorded as a liability within the respective funds.

**X. Contingencies**

**1. Grants**

PTCM 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 PTCM. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PTCM at June 30, 2008.

**2. Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of

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this review could result in state funding being adjusted. As of the date of this report adjustments to the state funding received during fiscal year 2008 are reflected in the financial statements.

**XI. Sponsorship and Management Agreements**

PTCM 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 6, 2006. Sponsorship fees are calculated as 2% of the Fiscal Year 2008 Foundation payments received by PTCM, from the State of Ohio. The total amount due from PTCM for fiscal year 2008 was \$7,984, all of which was paid prior to June 30, 2008

PTCM entered into an agreement with Constellation Schools to provide legal, financial, and business management services for fiscal year 2008. The agreement was for a period of one year, effective July 1, 2007. Management fees are calculated as 5.5% of the Fiscal Year 2008 Foundation payment received by PTCM from the State of Ohio plus a fixed fee of \$37,500. The total amount due from PTCM for the fiscal year ending June 30, 2008 was \$59,475 all of which was paid prior to June 30, 2008.

**XII. Capital Commitments**

As of June 30, 2008 PTCM had an outstanding encumbrance to purchase laptop computers from CDWG in the amount of \$122,903. Subsequent to year-end the computers were received and the encumbrance was liquidated.



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 26, 2008

To the Board of Trustees  
Constellation Schools: Puritas Community Middle  
15204 Puritas Ave.  
Cleveland, OH 44135

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

We have audited the financial statements of Constellation Schools: Puritas Community Middle as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Constellation Schools: Puritas Community Middle's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Constellation Schools: Puritas Community Middle in a separate letter dated November 26, 2008.

Compliance and Other Matters

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

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

*Rea & Associates, Inc.*





Mary Taylor, CPA  
Auditor of State

**CONSTELLATION SCHOOLS: PURITAS 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  
APRIL 16, 2009**