



**PURITAS COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

PURITAS COMMUNITY SCHOOL
CUYAHOGA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Puritas Community School
Cuyahoga County
15204 Puritas Avenue
Cleveland, Ohio 44135

We have audited the accompanying financial statements of the Puritas Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, 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 opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Puritas Community School, Cuyahoga County, Ohio, as of June 30, 2005 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 December 23, 2005, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 23, 2005

PURITAS COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of Puritas Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2005 include the following:

- In total, net assets increased \$142,709, which represents a 75.8% increase from 2004. This increase is due primarily to increased enrollment resulting in increased state funding and federal subsidies. Also, private grants were received during the year.
- Total assets decreased \$36,235, which represents a 6.4% decrease from 2004. This decrease is due to a decrease in the year end current assets of \$101,677 offset in part by an increase in net capital assets of \$65,442. The cash balance increase is due to increased enrollment and the decrease in Other Current Assets of \$160,236 is due to the collection of 2004 DPIA funds. The increase in capital assets is due to building improvements and purchases of classroom computers and equipment.
- Liabilities decreased \$178,944, which represents a 47.9% decrease from 2004. Accounts payable decreased by \$88,843, current liabilities (mainly payroll related) decreased by a total of \$2,601 and long-term liabilities decreased by \$87,500.
- Operating revenues increased by \$440,187, which represents a 108.1% increase from 2004. The majority of this increase (\$420,820) is due to increased enrollment resulting in increased state funding. Additional increases are the result of materials fees and student activities.
- Operating expenses increased by \$468,105, which represents a 94.8% increase from 2004. Operating expense increases are due to additional staffing, additional services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$101,451, which represents a 62.8% increase from 2004. This increase is due mostly to increased Federal and State Grants in the amount of \$95,127, increased interest earned of \$381 and increased private grants totaling \$5,943.

PURITAS COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Using this Financial Report

This report consists of three parts, the 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.

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2005. This statement includes all of the assets, liabilities and equity balances 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 of the School's Statement of Net Assets for fiscal years ended June 30, 2005 and 2004.

	2005	2004
Assets		
Cash	\$ 63,460	\$ 4,901
Other Current Assets	58,312	218,548
Capital Assets	403,803	338,361
Total Assets	525,575	561,810
Liabilities		
Current Liabilities	26,678	118,122
Long-Term Liabilities	167,950	255,450
Total Liabilities	194,628	373,572
Net Assets		
Net Assets	330,947	188,238
Total Liabilities and Net Assets	\$ 525,575	\$ 561,810

Net Assets increased \$142,709, due primarily to increased enrollment and grants. For assets, cash increased \$58,559; due from other governments decreased \$160,236 (collection of 2004 DPIA funding) and net capital assets increased \$65,442 from 2004. For liabilities, accounts payable decreased \$88,843; due to other governments decreased \$5,054; accrued wages and benefits increased \$196 and deferred revenues increased \$2,257 from 2004.

PURITAS COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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, 2005.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Revenues		
Foundation and DPIA Revenues	\$ 808,083	\$ 387,263
Other Operating Revenues	33,641	14,274
Interest	571	190
Federal and State Grants	256,395	161,268
Private Grants and Contributions	<u>5,943</u>	<u>-0-</u>
Total Revenues	<u>1,104,633</u>	<u>562,995</u>
Expenses		
Salaries	330,845	179,371
Fringe Benefits	89,716	55,252
Purchased Services	326,603	149,649
Materials and Supplies	133,326	50,417
Capital Outlay	28,689	22,871
Depreciation	39,338	28,946
Other Operating Expenses	<u>13,407</u>	<u>7,313</u>
Total Expenses	<u>961,924</u>	<u>493,819</u>
Net Income	142,709	69,176
Net Assets at Beginning of Year	<u>188,238</u>	<u>119,062</u>
Net Assets at End of Year	<u>\$ 330,947</u>	<u>\$ 188,238</u>

Net Assets increased in both fiscal years ending June 30, 2004 and 2005. This is due to increasing revenues due to increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases 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.

PURITAS COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The most significant increases in revenues from 2004 to 2005 are Foundation and DPIA (increased \$420,820) due to enrollment increases and increases in formula amounts and Federal and State Grants (increased \$95,127) due mainly to increased title allocations. Additionally, increases recognized in Private Grants and Contributions (\$5,943), interest income (\$381) and Other Operating Revenue (\$19,367).

All areas of expenses increased from 2004 to 2005. Salaries and Fringe Benefits increased (\$185,938) due to additional staffing and annual increases; Purchased services increased (\$176,954) due to additional instructional services, pupil support services, administrative services and occupancy costs. Materials and Supplies increased (\$82,909) due to increased text book and classroom supplies purchases for additional enrollment and for facilities supplies. Depreciation increased (\$10,392) as a direct result of the purchase of computers and equipment and additional building improvements. Other Operating Expenses increased (\$6,094) due to increased miscellaneous expenses and insurance premiums.

Capital Assets

As of June 30, 2005 the School had \$403,804 invested in leasehold improvements, computers, office equipment, furniture, classroom equipment and materials, net of depreciation. This is a \$65,443 increase over June 30, 2005.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Capital Assets (net of depreciation)		
Leasehold Improvements	\$ 334,798	\$ 324,962
Computers and Office Equipment	37,218	5,193
Furniture, Equipment & Materials	<u>31,787</u>	<u>8,206</u>
Net Capital Assets	<u>\$ 403,803</u>	<u>\$ 338,361</u>

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

PURITAS COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Current Financial Issues

Puritas Community School opened in the fall of 2003. In its second year of operations it has grown from 61 students, five teaching staff members and expenses of \$493,819 to a total of 119 students, nine teaching staff members and expenses of \$961,924. As the School matures to full enrollment we strive 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 these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's 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 at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to babb.thomas@constellationschools.com.

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**PURITAS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Net Assets
As of June 30, 2005**

Assets:

Current Assets:

Cash	\$63,460
Due from Other Governments	<u>58,312</u>
<i>Total Current Assets</i>	121,772

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>403,803</u>
<i>Total Assets</i>	<u>\$525,575</u>

Liabilities:

Current Liabilities:

Accounts Payable	\$18,403
Due Other Governments	435
Accrued Wages and Benefits	950
Deferred Revenue	<u>6,890</u>
<i>Total Current Liabilities</i>	<u>26,678</u>

Long Term Liabilities:

Leasehold Improvements Payable	<u>167,950</u>
<i>Total Liabilities</i>	<u>194,628</u>

Net Assets:

Investment in capital assets, net of related debt	235,853
Unrestricted	<u>95,094</u>
<i>Total Net Assets</i>	<u><u>\$330,947</u></u>

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

**PURITAS COMMUNITY SCHOOL
 CUYAHOGA COUNTY
 Statement of Revenues, Expenses and
 Changes in Net Assets
 For the Fiscal Year Ended June 30, 2005**

Operating Revenues:

Foundation and DPIA Revenues	\$808,083
Other Operating Revenues	<u>33,641</u>
<i>Total Operating Revenues</i>	<u>841,724</u>

Operating Expenses:

Salaries	330,845
Fringe Benefits	89,716
Purchased Services	326,603
Materials and Supplies	133,326
Capital Outlay	28,689
Depreciation	39,338
Other Operating Expenses	<u>13,407</u>
<i>Total Operating Expenses</i>	<u>961,924</u>
Operating Loss	<u>(120,200)</u>

Non-Operating Revenues:

Interest	571
Federal and State Grants	256,395
Private Grants and Contributions	<u>5,943</u>
<i>Total Non-Operating Revenues</i>	<u>262,909</u>
Net Income	<u>142,709</u>
Net Assets at Beginning of the Year	<u>188,238</u>
Net Assets at End of Year	<u><u>\$330,947</u></u>

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

**PURITAS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$951,631
Cash Payments to Suppliers for Goods and Services	(686,391)
Cash Payments to Employees for Services	(329,895)
Other Operating Revenues	<u>35,898</u>
Net Cash Used for Operating Activities	<u>(28,757)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	5,943
Federal and State Grants Received	<u>273,083</u>
Net Cash Provided by Noncapital Financing Activities	<u>279,026</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(104,781)
Decrease in Leashold Improvements Payable	<u>(87,500)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(192,281)</u>

Cash Flows from Investing Activities:

Interest	<u>571</u>
Net Cash Provided by Investing Activities	<u>571</u>
Net Increase in Cash	58,559
Cash at Beginning of Year	<u>4,901</u>
Cash at End of Year	<u><u>\$63,460</u></u>

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

PURITAS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
(Continued)

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

Operating Loss	(\$120,200)
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	39,338
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Changes in Assets and Liabilities:

Decrease in Due from Other Governments - DPIA	143,548
(Decrease) in Accounts Payable	(88,842)
(Decrease) in Due Other Governments	(5,054)
Increase in Accrued Wages and Benefits	196
Increase in Deferred Revenue	2,257

Total Adjustments	91,443
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Net Cash Used for Operating Activities	(\$28,757)
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The accompanying notes to the financial statements are an integral part of this statement.

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

I. Description of the School and Reporting Entity

Puritas Community School (PTCS), originally Euclid Community School (EUCS), is a nonprofit corporation established on October 17, 2001 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 May 5, 2003, PTCS (as EUCS) 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 PTCS' tax-exempt status. PTCS, which is part of Ohio's education program, is independent of any school district. PTCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PTCS.

PTCS (as EUCS) was approved for operation under a contract between the Governing Authority of PTCS (as EUCS) and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On May 13, 2003 the Board of Trustees changed the name of Euclid Community School to Puritas Community School and the contract was subsequently moved to Cleveland with Sponsor approval. On October 16, 2003 PTCS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XII for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation (management company), on September 17, 1999 under the name Constellation Community Schools (CCS).

PTCS operates under a five-member Board of Trustees. 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. PTCS controls one instructional facility staffed by nine certificated full time teaching personnel who provide services to 119 students.

PTCS entered into an agreement with CCS to provide management services for the fiscal year. See footnote XII for additional information regarding the management company. The board members of PTCS are also board members of CCS, Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students.

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies

The financial statements of PTCS have been prepared in conformity with generally accepted accounting principles 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. PTCS 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 PTCS' 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. PTCS 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 PTCS 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 PTCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to PTCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

For fiscal year 2005, PTCS has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," GASB Statement No. 40, "Deposit and Investment Risk Disclosures," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit plans.

The implementation of GASB Statements Nos. 39, 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements for the school.

3. Cash

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

4. Budgetary Process

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

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

5. Due from Other Governments

Moneys due PTCS for the year ended June 30, 2005 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.

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.

Leasehold improvements are also 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.

Depreciation of leasehold improvements, computers, furniture, equipment and materials 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. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers and Office Equipment	3
Leasehold Improvements	12.5 or 10
Furniture, Equipment & Materials	10

7. Intergovernmental Revenues

PTCS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA") and the Federal Lunch Reimbursement Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

7. Intergovernmental Revenues (Continued)

PTCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, PTCS was awarded \$150,000 in fiscal year 2004 and \$150,000 in fiscal year 2005 to offset start-up costs of the School. During fiscal year 2005, \$75,000 from the 2004 award and \$92,128 from the 2005 award was received. Revenue for the remaining balance of \$58,312 has been recorded along with a receivable recorded in Due from Other Governments and will be received during the 2006 fiscal year. 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 2005 school year totaled \$1,064,478.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, PTCS 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 amount of one hundred twenty days. PTCS 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.

9. 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.

10. Deferred Revenue

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

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

III. Deposits

At fiscal year end June 30, 2005, the carrying amount of PTCS' deposits totaled \$63,460 and its bank balance was \$90,501. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, PTCS 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 PTCS.

IV. Capital Assets

A summary of capital assets at June 30, 2005 follows:

	Balance <u>6/30/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/05</u>
Capital Assets Being Depreciated:				
Leasehold Improvements	\$350,502	\$38,838	\$0	\$389,340
Computers/Office Equipment	7,694	39,248	0	46,942
Furniture, Equipment & Materials	<u>9,112</u>	<u>26,695</u>	<u>0</u>	<u>35,807</u>
Total Capital Assets Being Depreciated:	<u>367,308</u>	<u>104,781</u>	<u>0</u>	<u>472,089</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(25,539)	(29,002)	0	(54,541)
Computers & Office Equip	(2,501)	(7,223)	0	(9,724)
Furniture, Equipment & Materials	<u>(907)</u>	<u>(3,113)</u>	<u>0</u>	<u>(4,020)</u>
Total Accumulated Depreciation:	<u>(28,947)</u>	<u>(39,338)</u>	<u>0</u>	<u>(68,285)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$338,361</u>	<u>\$65,443</u>	<u>\$0</u>	<u>\$403,804</u>

PURITAS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

V. Purchased Services

Purchased Services include the following:

Instruction	\$22,397
Pupil Support Services	48,544
Staff Development & Support	16,179
Administrative	123,885
Occupancy Costs	99,785
Food Services	<u>15,813</u>
Total	<u>\$326,603</u>

VI. Operating Leases

PTCS subleases its facilities from Sovereign Day Care, LLC under a one-year sublease agreement effective August 1, 2003 and expiring July 31, 2004. The sublease was renewed with Sovereign Day Care, LLC for one-year effective August 1, 2004 through July 31, 2005. Monthly payments under the terms of the lease were \$4,000 during the initial term and were increased to \$5,000 effective August 1, 2004.

The lease also provides that PTCS will pay Sovereign Day Care, LLC monthly installments to reimburse the lessor for build-out and improvements to the building. In addition to the monthly payments lump-sum payments were also made to reduce the balance owed to the lessor. As of June 30, 2005 the balance due Sovereign Day Care, LLC for Leasehold Improvements is \$167,950.

During fiscal year 2005 total rents paid to Sovereign Day Care, LLC totaled \$59,000 and total paid for Leasehold Improvements was \$87,500.

VII. Risk Management

1. Property and Liability Insurance

PTCS 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 2005, PTCS contracted with Cincinnati Insurance Company for all of its' insurance.

PURITAS COMMUNITY SCHOOL
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NOTES TO THE FINANCIAL STATEMENTS
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VII. Risk Management (Continued)

General liability is covered at \$2,000,000 single occurrence limit and \$4,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

PTCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2005 there have been no claims filed by PTCS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Vision Benefits

PTCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to PTCS for insurance benefits was \$33,579.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

PTCS contributes to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and PTCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of PTCS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was

PURITAS COMMUNITY SCHOOL
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VIII. Defined Benefit Pension Plans (Continued)

the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. PTCS' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005 and 2004 were \$2,002 and \$1,797. For fiscal year 2005 and 2004, all required contributions were paid.

2. State Teachers Retirement System

PTCS contributes to the State Teachers Retirement System of Ohio ("STRS"), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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VIII. Defined Benefit Pension Plans (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and PTCS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

PTCS' required contribution for pension obligations to the DB Plan to for the fiscal years ended June 30, 2005 and 2004 were \$39,825 and \$20,458. For fiscal year 2005, PTCS contributions totaling \$168 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All required contributions were paid.

IX. Post-Employment Benefits

PTCS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For PTCS, this amount equaled \$3,063 during fiscal 2005.

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IX. Post-Employment Benefits (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For PTCS, the amount to fund health care benefits, including surcharge, equaled \$1,737 for fiscal 2005.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million dollars. At June 30, 2004, SERS had net assets available for health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits

X. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

PTCS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

PURITAS COMMUNITY SCHOOL
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XI. Contingencies

1. Grants

PTCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of PTCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PTCS at June 30, 2005.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on WCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2005.

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Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
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XII. Sponsorship and Management Agreement

PTCS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by PTCS, from the State of Ohio. The total amount due from PTCS for fiscal year 2005 was \$8,088 all of which was paid prior to June 30, 2005.

PTCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2005. The agreement was for a period of one year, effective July 1, 2004. Management fees are calculated as 11% of the 2004/2005 Foundation payment received by PTCS, as reported in the Monthly Community School Foundation Report. The total amount due from PTCS for the fiscal year ending June 30, 2005 was \$88,889 all of which was paid prior to June 30, 2005.

XIII. Related Parties

The members of the PTCS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students governing boards. PTCS contracts with CCS for legal, financial and business management services.

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**Auditor of State
Betty Montgomery**

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

Board of Trustees
Puritas Community School
Cuyahoga County
15204 Puritas Avenue
Cleveland, Ohio 44135

We have audited the financial statements of the Puritas Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 23, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audit may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated December 23, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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, providing an opinion 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*.

Puritas Community School
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 23, 2005



**Auditor of State
Betty Montgomery**

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PURITAS COMMUNITY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 12, 2006**