

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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Constellation Schools: Puritas Community Elementary, 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 Elementary is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 21, 2009

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**CONSTELLATION SCHOOLS: PURITAS COMMUNITY ELEMENTARY
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 Elementary
15204 Puritas Avenue
Cleveland, Ohio 44135

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Constellation Schools: Puritas Community Elementary (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 Elementary, 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 ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

The discussion and analysis of Constellation Schools: Puritas Community Elementary (PTCE) 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 PTCE 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 PTCE.

Financial Highlights

Key financial highlights for 2008 include the following:

- In total, net assets increased \$32,279, which represents a 4.5% increase from 2007. This increase is due primarily to efficiencies in operating the school. On September 28, 2006, grades 5 and 6 were split off to form a new middle school and provide more flexibility in the curriculum for each student and to improve the options for limited facilities space. When compared to 2007, the net asset increase is significantly smaller because of higher facilities charges.
- Total assets increased \$51,490, which represents a 6.9% increase from 2007. This is due to increased cash offset by decreases in other current and capital assets.
- Liabilities increased \$19,211, which represents a 77.9% increase from 2007. Increases in vendor payables, payroll and benefits payable, deferred revenues and leases payable all contributed to the increase.
- Operating revenues increased by \$122,588, which represents an 8.7% increase from 2007. This increase is a result of slightly increased enrollment plus rent income from the middle school.
- Expenses increased by \$323,633 which represents a 22.9% increase from 2007. Operating expense increases are due to primarily to additional personnel, annual personnel increases and additional facilities costs.
- Non-operating revenues increased by \$51,481, which represents a 27.6% increase from 2007. This increase is due to increased Federal Grants (including lunch program) and interest earned.

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 ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

Statement of Net Assets

The Statement of Net Assets looks at how well PTCE 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 PTCE.

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 644,525	\$ 479,306
Other Current Assets	5,969	52,607
Capital Assets	<u>145,957</u>	<u>213,048</u>
Total Assets	<u>796,451</u>	<u>744,961</u>
Liabilities		
Current Liabilities	38,309	24,224
Long-Term Liabilities	<u>5,557</u>	<u>431</u>
Total Liabilities	<u>43,866</u>	<u>24,655</u>
Net Assets		
Investments in capital assets net of related debt	145,957	213,048
Unrestricted	606,628	507,258
Net Assets	<u>\$ 752,585</u>	<u>\$ 720,306</u>

Net assets increased \$32,279, due primarily efficiencies in operating the school. For assets, cash increased \$165,219; due from other governments decreased \$9,316; accounts receivable decreased \$37,322 and net capital assets decreased \$67,091 from 2007. For liabilities, accounts payable increased \$4,482; accrued wages and benefits increased \$8,543; deferred revenues increased \$1,060 and leases payable increased \$5,126 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 ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

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

	<u>2008</u>	<u>2007</u>
Revenues		
Foundation and Poverty Based Assistance Revenues	\$1,375,698	\$1,307,831
Other Operating Revenues	<u>155,085</u>	<u>100,364</u>
Operating Revenues	<u>1,530,783</u>	<u>1,408,195</u>
Interest	15,274	13,897
Federal and State Grants	222,554	172,431
Private Grants and Contributions	<u>0</u>	<u>19</u>
Non-Operating Revenues	<u>237,828</u>	<u>186,347</u>
Total Revenues	<u>1,768,611</u>	<u>1,594,542</u>
Expenses		
Salaries	617,131	517,473
Fringe Benefits	174,516	139,733
Purchased Services	735,552	541,036
Materials and Supplies	104,142	126,080
Capital Outlay	13,021	10,297
Depreciation	74,266	58,278
Other Operating Expenses	<u>17,704</u>	<u>19,802</u>
Total Expenses	<u>1,736,332</u>	<u>1,412,699</u>
Net Income	32,279	181,843
Net Assets at Beginning of Year	<u>720,306</u>	<u>538,463</u>
Net Assets at End of Year	<u>\$ 752,585</u>	<u>\$ 720,306</u>

Net assets increased in both fiscal years ending June 30, 2007 and 2008. These increases are due primarily to operating efficiencies for both years. Although certain expenditures such as salaries will increase or decrease as the number of classes increase or decrease other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs.

Overall, revenues increased by \$174,069 from 2007 to 2008. The most significant revenue increases include Foundation and Poverty Based Assistance funds which increased \$67,867 due to increased enrollment and increases in formula amounts; Federal and State Grants of \$50,123 due mainly to increased title allocations and lunch program; other revenue of \$54,721 due to rent charged to the middle school and interest income which increased \$1,377 from 2007. Other miscellaneous categories decreased by \$3,926 in aggregate.

CONSTELLATION SCHOOLS: PURITAS COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

In total expenses increased \$323,633 from 2007 to 2008. Salaries and Fringe Benefits increased \$134,441 due to hiring additional personnel and annual increases. Purchased services increased \$194,516 due to occupancy cost increases, additional pupil support services and administrative services. PTCE assumed the lease for the facility it previously sub-leased resulting in increased occupancy costs totaling \$162,956. Materials and Supplies decreased \$21,938 and Capital Outlay increased \$2,724 due to sufficient purchases of text books, classroom supplies, furniture and equipment for classrooms in prior years. Depreciation increased \$15,988 as a direct result of placing new equipment in service during 2007 and a reduction in the depreciation period for building improvements. Other Operating Expenses decreased \$2,098 due to decreases in other program fund transfers.

Capital Assets

As of June 30, 2008, PTCE had \$145,957 invested in computers and office equipment, furniture and equipment, and building improvements, net of depreciation. This is a \$67,091 decrease over June 30, 2007.

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

	<u>2008</u>	<u>2007</u>
Capital Assets (net of depreciation)		
Building Improvements	\$113,957	\$161,281
Computers and Office Equipment	17,845	22,002
Furniture, Equipment & Materials	<u>14,155</u>	<u>29,765</u>
Net Fixed Assets	<u>\$ 145,957</u>	<u>\$ 213,048</u>

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

Current Financial Issues

Constellation Schools: Puritas Community Elementary (PTCE) opened in the fall of 2003. In its fifth year of operations it has grown from 61 students, five teaching staff members and expenses of \$493,819 to a total of 190 students, 20 teaching staff members and expenses of \$1,736,332. During the 2007 school year grades 5 and 6 were split off to form Puritas Community Middle School which will provide more flexibility in the curriculum for each student and will improve our options for limited facilities space. Despite this change, enrollment continued to increase due to the natural growth of the lower grades.

PTCE subleased its facility until May, 2007 when the lessor abandoned their lease. In order to remain in the building, PTCE accepted assignment of the lease from the previous lessor. As a result, occupancy costs increases in excess of \$150,000 from prior years will continue until the lease expires in July 2010. PTCE subleases a portion of its space to the middle school with lease amounts determined by the amount of space used by the school.

CONSTELLATION SCHOOLS: PURITAS COMMUNITY ELEMENTARY

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Unaudited

As the school continues to mature, we work 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 that 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 finances for PTCE 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 54th Street, Parma, Ohio 44129; by e-mail at babb.thomas@constellationschools.com; by calling 440.845.7688; or by faxing 440.845.7689.

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

Assets:

Current Assets:

Cash	\$644,525
Due from Other Governments	2,506
Accounts Receivable	3,463
	650,494
<i>Total Current Assets</i>	<i>650,494</i>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	145,957
	145,957
<i>Total Assets</i>	<i>796,451</i>

Liabilities:

Current Liabilities:

Accounts Payable	20,406
Accrued Wages and Benefits	8,543
Deferred Revenue	9,360
	38,309
<i>Total Current Liabilities</i>	<i>38,309</i>

Long Term Liabilities:

Leases Payable	5,557
	5,557
<i>Total Liabilities</i>	<i>43,866</i>

Net Assets:

Investment in capital assets, net of related debt	145,957
Unrestricted	606,628
	752,585
<i>Total Net Assets</i>	<i>\$752,585</i>

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

**Constellation Schools: Puritas Community Elementary
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	\$1,375,698
Other Operating Revenues	<u>155,085</u>
<i>Total Operating Revenues</i>	<u>1,530,783</u>

Operating Expenses:

Salaries	617,131
Fringe Benefits	174,516
Purchased Services	735,552
Materials and Supplies	104,142
Capital Outlay	13,021
Depreciation	74,266
Other Operating Expenses	<u>17,704</u>
<i>Total Operating Expenses</i>	<u>1,736,332</u>
Operating Loss	<u>(205,549)</u>

Non-Operating Revenues:

Interest	15,274
Federal and State Grants	<u>222,554</u>
<i>Total Non-Operating Revenues</i>	<u>237,828</u>
Net Income	<u>32,279</u>
Net Assets at Beginning of the Year	<u>720,306</u>
Net Assets at End of Year	<u><u>\$752,585</u></u>

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

**Constellation Schools: Puritas Community Elementary
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	\$1,375,698
Cash Payments to Suppliers for Goods and Services	(1,036,382)
Cash Payments to Employees for Services	(609,786)
Other Operating Revenues	<u>195,720</u>
Net Cash Used for Operating Activities	<u>(74,750)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	<u>231,870</u>
Net Cash Provided by Noncapital Financing Activities	<u>231,870</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(7,175)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(7,175)</u>

Cash Flows from Investing Activities:

Interest	<u>15,274</u>
Net Cash Provided by Investing Activities	<u>15,274</u>
Net Increase in Cash	165,219
Cash at Beginning of Year	<u>479,306</u>
Cash at End of Year	<u><u>\$644,525</u></u>

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

**Constellation Schools: Puritas Community Elementary
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	<u>(\$205,549)</u>
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	74,266
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Changes in Assets and Liabilities:

Decrease in Accounts Receivable	37,322
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Increase in Accounts Payable	4,482
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Increase in Accrued Wages and Benefits	8,543
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Increase in Deferred Revenue	1,060
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Increase in Leases Payable	5,126
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Total Adjustments	<u>130,799</u>
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Net Cash Used for Operating Activities	<u><u>(\$74,750)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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

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

I. Description of the School and Reporting Entity

Constellation Schools: Puritas Community Elementary (PTCE), originally Euclid Community School (EUCS) and previously operating as Puritas Community School, is a nonprofit corporation established 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, PTCE (as EUCS) received a determination letter confirming tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status of PTCE. PTCE, which is part of Ohio's education program, is independent of any school district. PTCE may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PTCE.

PTCE (as EUCS) was approved for operation under a contract between the Governing Authority of PTCE (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 name of the school was changed to Puritas Community School. On October 16, 2003 PTCE entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor. The contract with LCESC was subsequently renewed effective November 2, 2006. Under the terms of the contract LCESC will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. PTCE 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 Elementary.

PTCE 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 PTCE's instructional facility, staffed by twenty certificated full time teaching personnel who provide services to 190 students. During 2008, the board members for PTCE also serve as the board for Constellation Schools: Puritas Community Middle.

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

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

II. Summary of Significant Accounting Policies

The financial statements of PTCE 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. PTCE 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 PTCE'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. PTCE 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 PTCE 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 PTCE must provide local resources to be used

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

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

for a specified purpose; and expenditure requirements, in which resources are provided to PTCE on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Monies due PTCE 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 building 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:

Capital Asset Classification	Years
Building Improvements	3.167
Computers and Office Equipment	3
Furniture, Equipment and materials	10

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

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

7. Intergovernmental Revenues

PTCE 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. PTCE also participates in Federal Entitlement Programs, the Federal Lunch Reimbursement Program and various State Grant Programs. State and Federal Grants and Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the 2008 school year totaled \$1,598,252.

8. Private Grants and Contributions

PTCE received grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2008 school year totaled \$-0- and in 2007 totaled \$19.

9. Compensated Absences

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

10. Use of Estimates

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

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

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

11. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for PTCE 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 PTCE's deposits totaled \$644,525 and its bank balance was \$659,234. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2008, \$559,234 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, PTCE 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 PTCE.

IV. Purchased Services

Purchased Services include the following:

Instruction	\$97,331
Pupil Support Services	60,285
Staff Development & Support	12,944
Administrative	199,725
Occupancy Costs	315,090
Food Services	48,758
Student Activities	<u>1,419</u>
Total	<u>\$735,552</u>

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

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:				
Building Improvements	\$283,400	\$7,175	\$ 0	\$290,575
Computers/Office Equipment	68,500	0	0	68,500
Furniture, Equipment & Materials	<u>41,576</u>	<u>0</u>	<u>0</u>	<u>41,576</u>
Total Capital Assets Being Depreciated:	<u>393,476</u>	<u>7,175</u>	<u>0</u>	<u>400,651</u>
Less Accumulated Depreciation:				
Building Improvements	(122,119)	(54,499)	0	(176,618)
Computers/Office Equipment	(46,498)	(4,157)	0	(50,655)
Furniture and Equipment	<u>(11,811)</u>	<u>(15,610)</u>	<u>0</u>	<u>(27,421)</u>
Total Accumulated Depreciation:	<u>(180,428)</u>	<u>(74,266)</u>	<u>0</u>	<u>(254,694)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$213,048</u>	<u>\$(67,091)</u>	<u>\$ 0</u>	<u>\$145,957</u>

VI. Operating Leases

PTCE subleased its facilities from Sovereign Day Care, LLC (Sovereign) under a one-year sublease agreement effective August 1, 2003 that was renewed annually. In May, 2007 Sovereign abandoned its lease with Puritas Plaza Partnership (Owner). In order to remain in the building and to obtain all of the space previously occupied by Sovereign, PTCE was required by Owner to assume the balance of Sovereigns' lease. Under the terms of the assumption, the lease period is from June 1, 2007 through July 31, 2010 and cannot be cancelled. PTCE was also required to pay Owner unpaid rent for the month of May, 2007 totaling \$17,807 and unpaid water used in the amount of \$2,417. Monthly rent for the period June 1, 2006 to July 31, 2007 was \$17,807; August 2007 to July 2008 was \$18,223.33 and August 2008 to July 2010 is \$18,833.33. During fiscal year 2008 total rents paid to Puritas Plaza Partnership totaled \$218,263.

At the time of the abandonment of the lease by Sovereign, PTCE had a balance of \$119,450 in unpaid Leasehold Improvements due to Sovereign. As of May 31, 2007, PTCE has written-off the remaining balance of Leasehold Improvements Payable and has

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also reduced capitalized Leasehold Improvements by the same amount. The depreciable life of the remaining leasehold improvements has been adjusted to reflect the new contract term.

PTCE recognizes these non-cancelable lease costs on the straight line basis as follows:

Lease Year	Straight Line Expense	Rental Payments Due
2009	\$223,040	\$225,390
2010	223,040	226,000
2011	<u>18,586</u>	<u>18,833</u>
	<u>\$464,666</u>	<u>\$470,223</u>

PTCE has recorded \$5,557 as leases payable on the balance sheet. This amount represents the funds due at June 30, 2008 based on the straight line basis over the life of the lease. Lease payments accrued for the year ended June 30, 2008 totaled \$5,126.

VII. Risk Management

1. Property and Liability Insurance

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

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

2. Workers' Compensation

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

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3. Employee Medical, Dental, and Life Benefits

PTCE 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 PTCE for the fiscal year is \$68,314.

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

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

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

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average of the members' three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st 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

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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 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 PTCE 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 PTCE, 13% was the portion used to fund pension obligations.

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PTCE's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were \$71,122, \$60,614 and \$54,986, respectively; 98.58% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$1,008 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

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

Plan members are required to contribute 10% of their annual covered salary and PTCE 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. PTCE' contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$9,805, \$7,221, and \$6,216, 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.

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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 PTCE' contributions to post-employment health care were \$5,471, \$4,663 and \$4,230, respectively; 98.59% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$77 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 PTCE's contributions to Medicare Part B were \$476, \$351 and \$302, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

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

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surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

For fiscal years ended June 30, 2008, 2007 and 2006 PTCE contributions to the Health Care Plan, including the surcharge were \$3,382, \$2,480 and \$2,187, respectively; 68.77% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. \$1,056 representing the unpaid surcharge due for fiscal year 2008 is recorded as a liability within the respective funds.

X. Contingencies

1. Grants

PTCE 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 PTCE. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PTCE 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 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

PTCE 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 1.5% of the Fiscal Year 2008 Foundation payments received by PTCE, from the State of Ohio. The total amount due from PTCE for fiscal year 2008 was \$20,635, of which 1,738 was outstanding as of June 30, 2008.

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PTCE 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 PTCE from the State of Ohio plus a fixed fee of \$87,500. The total amount due from PTCE for the fiscal year ending June 30, 2008 was \$163,114 all of which was paid prior to June 30, 2008.

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 26, 2008

To the Board of Trustees
Constellation Schools: Puritas Community Elementary
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 Elementary 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 Elementary'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 Elementary in a separate letter dated November 26, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Constellation Schools: Puritas Community Elementary'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 ELEMENTARY
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 16, 2009**