



Mary Taylor, CPA
Auditor of State

**PURITAS COMMUNITY MIDDLE SCHOOL
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Puritas Community Middle School
Cuyahoga County
15204 Puritas Avenue
Cleveland, Ohio 44135

To the Board of Trustees:

We have audited the accompanying basic financial statements of Puritas Community Middle School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2007, 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puritas Community Middle School, Cuyahoga County, Ohio, as of June 30, 2007, and the changes in financial position and its 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 February 7, 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. 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 7, 2008

PURITAS COMMUNITY MIDDLE SCHOOL

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The discussion and analysis of Puritas Community Middle School's (PTCMS) financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the financial performance of PTCMS 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 PTCMS.

Financial Highlights

Key financial highlights for 2007 include the following:

- The school began operations on September 28, 2006, during the 2006-2007 school-year by enrolling grades 5 and 6 from Puritas Community School (PTCS). The middle school subleased space and utilized some staff from PTCS.
- In total, net assets increased \$498,225 from 2006. This increase is due to opening the school with a full enrollment, sharing space and personnel with PTCS, receiving federal start-up monies and receipt of a foundation grant. Enrollment for the 2007-2008 school year increased by one class to a total of sixty students.
- Total assets increased \$584,362 from 2006. This increase is due to an increase in cash, other current assets and net capital assets. The cash balance increase of \$512,892 is due to the full enrollment, sharing of space and personnel with PTCS, receipt of a foundation grant which has not yet been liquidated and an increase in accounts payable. The increase in other current assets is due to grants and other receivables. The increase in capital assets is due to purchases of computers and equipment.
- Liabilities increased \$86,137 from 2006. Current liabilities at fiscal year end include accounts payable of \$85,687 and deferred revenue of \$450.
- Operating revenues were \$245,051. The majority of the revenues, \$241,421, are from the State Foundation and Poverty Based Assistance program. Additional funding came from materials fees.
- Operating expenses were \$213,993. The largest expenses are due to staffing \$57,701; materials and supplies \$62,315 and services purchased by the school \$83,661 such as instructional services, professional development, administrative services and building rent.
- Non-operating revenues were \$467,167. This includes interest income, federal start-up grant and a foundation grant.

PURITAS COMMUNITY MIDDLE SCHOOL

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

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.

Statement of Net Assets

The Statement of Net Assets looks at how well PTCMS has performed financially through June 30, 2007. 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, 2007 and 2006 for PTCMS.

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 512,892	\$ 0
Other Current Assets	928	0
Capital Assets	<u>70,542</u>	<u>0</u>
Total Assets	<u>584,362</u>	<u>0</u>
Liabilities		
Current Liabilities	<u>86,137</u>	<u>0</u>
Total Liabilities	<u>86,137</u>	<u>0</u>
Net Assets		
Investment in capital assets net of related debt	70,542	0
Unrestricted	<u>427,683</u>	<u>0</u>
Total Net Assets	<u>\$ 498,225</u>	<u>\$ 0</u>

Net Assets increased \$498,225, due primarily to opening the school with a full enrollment, sharing space and personnel with Puritas Community School, receiving federal start-up monies and receipt of a foundation grant. For assets, cash increased \$512,892; due from other governments increased \$441; accounts receivable increased \$487, and net capital assets increased \$70,542 from 2006. For liabilities, accounts payable increased \$85,687 and deferred revenues increased \$450 from 2006.

PURITAS COMMUNITY MIDDLE SCHOOL

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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, 2007.

The following schedule provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for PTCMS for fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Revenues		
Foundation and Poverty		
Based Assistance Revenues	\$ 241,421	\$ 0
Other Operating Revenues	<u>7,770</u>	<u>0</u>
Operating Revenues	<u>249,191</u>	<u>0</u>
Interest	6,286	0
Private Grants and Contributions	230,000	0
Federal and State Grants	<u>226,741</u>	<u>28,950</u>
Non-Operating Revenues	<u>463,027</u>	<u>28,950</u>
Total Revenues	<u>712,218</u>	<u>28,950</u>
Expenses		
Salaries	44,433	0
Fringe Benefits	13,268	0
Purchased Services	83,661	24,000
Materials and Supplies	62,315	0
Capital Outlay	6,790	4,950
Depreciation	0	0
Other Operating Expenses	<u>3,526</u>	<u>0</u>
Total Expenses	<u>213,993</u>	<u>28,950</u>
Net Income	498,225	0
Net Assets at Beginning of Year	<u>0</u>	<u>0</u>
Net Assets at End of Year	<u>\$ 498,225</u>	<u>\$ 0</u>

PTCMS began operation on September 28, 2006 by enrolling 5th and 6th graders from Puritas Community School. Prior to that time a state start-up grant of \$28,950 was received to purchase office furniture and to pay for administrative expenses associated with setting up a new school. Since the school did not open prior to the 2006-2007 school year a comparative analysis has not been made for this statement.

PURITAS COMMUNITY MIDDLE SCHOOL

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Capital Assets

As of June 30, 2007, PTCMS had \$70,542 invested in computers and office equipment, furniture and equipment, net of depreciation. This is a \$70,542 increase over June 30, 2006.

The following schedule provides a summary of Capital Assets as of June 30, 2007 and 2006 for PTCMS.

	<u>2007</u>	<u>2006</u>
Capital Assets (net of depreciation)		
Computers and Office Equipment	14,985	0
Furniture, Equipment & Materials	<u>55,557</u>	<u>0</u>
Net Capital Assets	<u>\$70,542</u>	<u>\$0</u>

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

Current Financial Issues

PTCMS opened on September 28, 2006. In its initial year of operations it had forty students, two teaching staff members and expenses of \$213,993. Grades 5 and 6 were split off from Puritas Community School to form Puritas Community Middle School, thus providing more flexibility in the curriculum for each student and improving our options for limited facilities space. For fiscal year 2008, PTCMS is budgeted for a total of 58 students, four teaching staff members and expenses of \$782,587 (which includes liquidating the grants received in fiscal year 2007). The increase in enrollment for the 2007-2008 school year meets the plan for PTCMS and will result in a positive net asset balance at June 30, 2008. As PTCMS matures to full enrollment we will continue to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during this initial year.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the finances for PTCMS 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.

**Puritas Community Middle School
Cuyahoga County
Statement of Net Assets
As of June 30, 2007**

Assets:

Current Assets:

Cash	\$512,892
Due from Other Governments	441
Accounts Receivable	487
	<hr/>
Total Current Assets	513,820

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	70,542
	<hr/>
Total Non-Current Assets	70,542

Total Assets	584,362
	<hr/>

Liabilities:

Current Liabilities:

Accounts Payable	85,687
Deferred Revenue	450
	<hr/>
Total Current Liabilities	86,137

Net Assets:

Investment in capital assets, net of related debt	70,542
Unrestricted	427,683
	<hr/>
Total Net Assets	\$498,225
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The accompanying notes to the financial statements are an integral part of this statement.

**Puritas Community Middle School
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007**

Operating Revenues:

Foundation and Poverty Based Assistance Revenues	\$241,421
Other Operating Revenues	<u>7,770</u>
Total Operating Revenues	<u>249,191</u>

Operating Expenses:

Salaries	44,433
Fringe Benefits	13,268
Purchased Services	83,661
Materials and Supplies	62,315
Capital Outlay	6,790
Other Operating Expenses	<u>3,526</u>
Total Operating Expenses	<u>213,993</u>
Operating Income	<u>35,198</u>

Non-Operating Revenues:

Interest	6,286
Federal and State Grants	226,741
Private Grants and Contributions	<u>230,000</u>
Total Non-Operating Revenues	<u>463,027</u>
Net Income	<u>498,225</u>
Net Assets at Beginning of the Year	<u>0</u>
Net Assets at End of Year	<u><u>\$498,225</u></u>

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

**Puritas Community Middle School
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$241,421
Cash Payments to Suppliers for Goods and Services	(84,314)
Cash Payments to Employees for Services	(44,433)
Other Operating Revenues	<u>7,733</u>
Net Cash Provided by Operating Activities	<u>120,407</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	230,000
Federal and State Grants Received	<u>226,741</u>
Net Cash Provided by Noncapital Financing Activities	<u>456,741</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(70,542)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(70,542)</u>

Cash Flows from Investing Activities:

Interest	<u>6,286</u>
Net Cash Provided by Investing Activities	<u>6,286</u>

Net Increase in Cash	512,892
Cash at Beginning of Year	<u>0</u>
Cash at End of Year	<u><u>\$512,892</u></u>

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

**Puritas Community Middle School
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007
(Continued)**

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

Operating Income	<u>\$35,198</u>
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**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:**

Changes in Assets and Liabilities:

(Increase) in Due from Other Governments	(441)
(Increase) in Accounts Receivable	(487)
Increase in Accounts Payable	85,687
Increase in Deferred Revenue	<u>450</u>

Total Adjustments	<u>85,209</u>
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Net Cash Provided by Operating Activities	<u><u>\$120,407</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

I. Description of the School and Reporting Entity

Puritas Community Middle School (PTCMS), originally Newburgh Heights Community School, subsequently renamed Detroit-Shoreway Community School (DSCS), is a nonprofit corporation established on August 20, 1999 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On November 1, 2007, PTCMS 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 PTCMS' tax-exempt status. PTCMS, which is part of Ohio's education program, is independent of any school district. PTCMS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PTCMS.

PTCMS, (as DSCS) was approved for operation under a contract dated January 20, 2004 between the Governing Authority of PTCMS (as DSCS) and the Lucas County Educational Service Center (LCESC) (the Sponsor). On July 22, 2005 PTCMS (as DSCS) entered into a contract with Buckeye Community Hope Foundation (BCHF) to have BCHF replace LCESC as their sponsor. The contract was reissued September 6, 2006 as PTCMS to open a school in the fall of 2006. Under the terms of the contract BCHF will provide sponsorship services for a fee. See Note XI for further discussion of the sponsor services. PTCMS 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.

PTCMS 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 PTCMS' instructional facility staffed by two certificated full time teaching personnel who provide services to 40 students.

Beginning on February 16, 2007, the board members for PTCMS also serve as the board for Puritas Community School. Previous to February 16, 2007 the board members of PTCMS were also board members of Old Brooklyn Community School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Madison Community School, Stockyard Community School, Lorain Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

On March 27, 2007 PTCMS changed its legal name to Constellation Schools: Puritas Community Middle, but continues to operate as Puritas Community Middle School.

II. Summary of Significant Accounting Policies

The financial statements of PTCMS 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. PTCMS 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 PTCMS' 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. PTCMS 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 PTCMS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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 PTCMS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to PTCMS on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

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

4. Budgetary Process

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

5. Due From Other Governments and Accounts Receivable

Moneys due PTCMS for the year ended June 30, 2007 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 moneys to be due.

6. Prepaid Employee Withholding

Payments made to vendors for voluntary employee benefits prior to collection from the employee that benefit future periods are recorded as prepaid employee withholding. A current asset for the prepaid amount is recorded at the time of the payment and is subsequently reduced upon collection by payroll withholding.

7. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. All items with a useful life of one year or greater and a value of \$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.

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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

Capital Asset Classification	Years
Computers and Office Equipment	3
Furniture, Equipment and Materials	10

8. Intergovernmental Revenues

PTCMS 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.

PTCMS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, PTCMS was awarded \$300,000 in fiscal year 2007 to offset start-up costs of the School. During fiscal year 2007, \$226,281 from the award was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

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 2007 school year totaled \$468,162.

9. Private Grants and Contributions

PTCMS receives grants and contributions from private sources to support the schools programs. Private grants and contributions are recognized as non-operating revenues in the accounting period in which they are received. Amounts received for the 2007 school year totaled \$230,000.

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

10. Compensated Absences

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

11. 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.

12. Deferred Revenue

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

III. Deposits

At fiscal year end June 30, 2007, the carrying amount of PTCMS' deposits totaled \$512,892 and its bank balance was \$517,618. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, \$417,618 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, PTCMS 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 PTCMS.

**PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

IV. Capital Assets

A summary of capital assets at June 30, 2007 follows:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Capital Assets Being Depreciated:				
Computers/Office Equipment	\$0	\$14,985	\$0	\$14,985
Furniture, Equipment & Materials	<u>0</u>	<u>55,557</u>	<u>0</u>	<u>55,557</u>
Total Capital Assets Being Depreciated:	<u>0</u>	<u>70,542</u>	<u>0</u>	<u>70,542</u>
Less Accumulated Depreciation:				
Computers/Office Equipment	(0)	(0)	0	(0)
Furniture and Equipment	<u>(0)</u>	<u>(0)</u>	<u>0</u>	<u>(0)</u>
Total Accumulated Depreciation:	<u>(0)</u>	<u>(0)</u>	<u>0</u>	<u>(0)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$0</u>	<u>\$70,542</u>	<u>\$0</u>	<u>\$70,542</u>

V. Purchased Services

Purchased Services include the following:

Instruction	\$16,960
Staff Development & Support	2,610
Administrative	41,591
Occupancy Costs	<u>22,500</u>
 Total	 <u>\$83,661</u>

VI. Operating Lease

PTCMS subleases its facilities from Puritas Community School under a ten month lease effective September 1, 2006 through June 30, 2007. Monthly rent payments are set at \$2,500. Rent was not charged for September because the school did not open until September 28, 2006. Total rents paid to Puritas Community School during the fiscal year totaled \$22,500.

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

VII. Risk Management

1. Property and Liability Insurance

PTCMS 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 2007, PTCMS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$4,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$500,000 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

PTCMS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. There have been no claims filed by PTCMS employees with the Ohio Worker's Compensation System between January 1, 2000 and June 30, 2007.

3. Employee Medical, Dental, and Life Benefits

PTCMS 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 PTCMS for the fiscal year is \$6,266.

VIII. Defined Benefit Pension Plans

1. State Teachers Retirement System

PTCMS 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 financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

**PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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.

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, 2007, plan members were required to contribute 10 percent of their annual covered salary. PTCMS was required to contribute 14 percent. For fiscal year 2007 the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 member and employer contributions.

PTCMS' required contribution for pension obligations to STRS Ohio for the fiscal year ended June 30, 2007 was \$5,776. For fiscal year 2007, all required contributions have been made.

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

IX. Post-Employment Benefits

PTCMS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio). 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. STRS is on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For PTCMS, this amount equaled \$444 during fiscal 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

X. Contingencies

1. Grants

PTCMS 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 PTCMS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PTCMS at June 30, 2007.

PURITAS COMMUNITY MIDDLE SCHOOL
- A Community School -
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2. Litigation

A lawsuit entitled *Beverly Blount-Hill et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the US District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314 violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on PTCMS cannot be presently determined.

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 adjustments to the state funding received during fiscal year 2007 are reflected in the financial statements.

XI. Sponsorship and Management Agreements

PTCMS entered into an agreement with Buckeye Community Hope Foundation to provide sponsorship and oversight services as required by law. The agreement is effective September 6, 2006. Sponsorship fees are calculated as 2% of state funds received by PTCMS, from the State of Ohio. The total amount due from PTCMS for fiscal year 2007 was \$4,828 all of which was paid prior to June 30, 2007.

PTCMS entered into an agreement with Constellation Schools (CS) to provide legal, financial, and business management services for fiscal year 2007. The agreement was for a period of one year, effective July 1, 2006. Management fees are calculated as 11.5% of the Fiscal Year 2007 Foundation payment received by PTCMS, as reported in the Monthly Community School Foundation Report. The total amount due from PTCMS for the fiscal year ending June 30, 2007 was \$27,763 all of which was paid prior to June 30, 2007.

In addition, PTCMS is participating in a payroll bonus reserve established through CS. Payroll bonus reserve fees are calculated as 1% of the Fiscal Year 2007 Foundation payment received by PTCMS, as reported in the Monthly Community School Foundation Report. The total amount due from PTCMS for the fiscal year ending June 30, 2007 was \$2,414 all of which was paid prior to June 30, 2007.



Mary Taylor, CPA

Auditor of State

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

Puritas Community Middle School
Cuyahoga County
15204 Puritas Avenue
Cleveland, Ohio 44135

To the Board of Trustees:

We have audited the financial statements of the Puritas Community Middle School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 7, 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 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined 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 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 School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the School's management in a separate letter dated February 7, 2008.

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*.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees and the School's Sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 7, 2008



Mary Taylor, CPA
Auditor of State

PURITAS COMMUNITY MIDDLE 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
MARCH 11, 2008**