



**PARMA HEIGHTS COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

PARMA HEIGHTS COMMUNITY SCHOOL
CUYAHOGA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
Parma Heights Community School
Cuyahoga County
7667 Day Drive
Parma, Ohio 44129

We have audited the accompanying financial statements of the Parma Heights Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, 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 financial position of the Parma Heights Community School, Cuyahoga County, Ohio, as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note XV, the School suspended operations as of June 30, 2001 and subsequently merged with the Parma Community School.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

January 15, 2002, except for Note XV,
as to which the date is February 9, 2002.

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**PARMA HEIGHTS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Balance Sheet
As of June 30, 2001**

Assets:

Current Assets:

Cash	\$101
Accounts Receivable	500
Due From Other Government	<u>22,367</u>
<i>Total Current Assets</i>	<u>22,968</u>

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation)	<u>8,689</u>
<i>Total Non-Current Assets</i>	<u>8,689</u>
<i>Total Assets</i>	<u><u>\$31,657</u></u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	\$27,339
Due Other Governments	<u>3,359</u>
<i>Total Current Liabilities</i>	<u>30,698</u>

Equity:

Retained Earnings	<u>959</u>
<i>Total Equity</i>	<u>959</u>
<i>Total Liabilities and Equity</i>	<u><u>\$31,657</u></u>

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

**PARMA HEIGHTS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Revenues, Expenses and
Changes in Retained Earnings
For the Fiscal Year Ended June 30, 2001**

Operating Revenues:

Foundation Payments	\$142,207
Other State Funding	5,000
Other Operating Revenues	<u>32,882</u>
<i>Total Operating Revenues</i>	<u>180,089</u>

Operating Expenses:

Salaries	147,986
Fringe Benefits	32,330
Purchased Services	80,814
Materials and Supplies	42,001
Depreciation	2,751
Other Operating Expenses	<u>1,652</u>
<i>Total Operating Expenses</i>	<u>307,534</u>
Operating Loss	<u>(127,445)</u>

Non-Operating Revenues:

Interest	574
Federal Grants	<u>40,210</u>
<i>Total Non-Operating Revenues</i>	<u>40,784</u>
Net Loss	(86,661)
Retained Earnings at Beginning of Year	<u>87,620</u>
Retained Earnings at End of Year	<u><u>\$959</u></u>

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

**PARMA HEIGHTS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2001**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$147,207
Cash Payments to Suppliers for Goods and Services	(101,993)
Cash Payments for Employees for Services and Benefits	(176,957)
Other Operating Revenues	<u>11,146</u>
Net Cash Used for Operating Activities	<u>(120,597)</u>

Cash Flows from Noncapital Financing Activities:

Grants Received	<u>40,210</u>
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Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(9,879)</u>
Net Cash (Used) for Capital and Related Financial Activities	<u>(9,879)</u>

Cash Flows from Investing Activities:

Interest	<u>574</u>
Net Decrease in Cash	(89,692)
Cash at Beginning of Year	<u>89,793</u>
Cash at End of Year	<u><u>\$101</u></u>

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

**PARMA HEIGHTS COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2001
(Continued)**

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

Operating Loss	<u>(\$127,445)</u>
----------------	--------------------

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	2,751
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	631
Increase in Due From Other Governments	(22,367)
Increase in Due to Other Governments	3,359
Increase in Accounts Payable	<u>22,474</u>
Total Adjustments	<u>6,848</u>
Net Cash Used for Operating Activities	<u><u>(\$120,597)</u></u>

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

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

I. Description of the School and Reporting Entity

Parma Heights Community School (PHCS) is a nonprofit corporation established March 14, 2000 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. **PHCS**, which is part of Ohio's education program, is independent of any school district. **PHCS** may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of **PHCS**.

PHCS was approved for operation under a contract between the Governing Authority of the **PHCS** and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2000 and shall terminate on June 30, 2004. The Governing Authority of **PHCS** is responsible for carrying out the provisions of the Community School Contract. The Governing Authority incorporated an Ohio non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (management company) and on January 7, 2000, Constellation Community Schools filed an application with the Ohio Secretary of State to do business under the trade name Parma Heights Community School. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. On September 19, 2001, **PHCS** obtained tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. The Governing Authority controls the school's one instructional/support facility staffed by 1 uncertified and 5 certified fulltime teaching personnel who provide services to 34 students. The Board, which governs **PHCS**, also governs the Parma Community School, Old Brooklyn Montessori School and Constellation Community Schools.

PHCS operates under a three-member Board. 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.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

II. Summary of Significant Accounting Policies

The financial statements of **PHCS** have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. **PHCS** also applies Financial Accounting Standards Board (“FASB”) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of **PHCS**’ 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 balance sheet. Operating statements present increases (*i.e.*, revenues) and decreases (*i.e.*, expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

II. Summary of Significant Accounting Policies (Continued)

3. Cash and Cash Equivalents

All monies received by **PHCS** are maintained in demand deposit accounts.

4. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided for in the school's contract with its sponsor. The contract between the school and its sponsor does not prescribe a budgeting process for the school.

5. Accounts Receivable

Moneys due **PHCS** for the year ended June 30, 2001 are recorded as accounts receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due. As of June 30, 2001, **PHCS** had accounts receivable totaling \$500.

6. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical 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. **PHCS** does not possess any infrastructure.

Improvements 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.

Depreciation of 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. All items with a useful life of one year or greater and a cost of \$500 or more were capitalized. Estimated useful lives are as follows:

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

II. Summary of Significant Accounting Policies (Continued)

Fixed Asset Classification	Years
Furniture and Equipment	10
Computers and Office Equipment	3

7. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and the expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The school also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, **PHCS** was awarded \$40,000 in fiscal year 2001 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements. In fiscal year 2000, **PHCS** was awarded \$50,000 from this program. This amount is presented as part of retained earnings at the beginning of the year. See note XIV for additional information.

In addition, the school also participates in the Federal Charter School Sub-Grant Program through the Ohio Department of Education. Under this program, **PHCS** was awarded \$50,000 during fiscal year 2000. This amount is presented as part of retained earnings at the beginning of the year. See note XIV for additional information. No funds from this program were received during fiscal year 2001.

Amounts awarded under the above named programs for the 2001 school year totaled \$187,417.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

II. Summary of Significant Accounting Policies (Continued)

8. Compensated Absences

Vacation expire with the end of the school year, therefore **PHCS** does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one day per month and cannot be carried into the subsequent year. No accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals 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.

III. Deposits and Investments

At fiscal year end June 30, 2001, the carrying amount of **PHCS'** deposits totaled \$101 and its bank balance was \$5,135 which was covered by the Federal Depository Insurance Corporation.

IV. Fixed Assets

A summary of **PHCS'** fixed assets at June 30, 2001 follows:

Furniture and Equipment	\$11,440
Less Accumulated Depreciation	<u>(2,751)</u>
Net Fixed Assets	<u>\$ 8,689</u>

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

V. Purchased Services

Purchased Services include the following:

Occupancy costs	\$ 61,978
Pupil Support Services	2,312
Instruction	762
Administrative	13,317
Staff Development	<u>2,445</u>
Total	<u>\$ 80,814</u>

VI. Leases

PHCS leased its property from Divinity Lutheran Church under a one-year lease agreement which ending June 30, 2001. The lease agreement required lease payments of \$2,500 per month plus \$1,000 per enrolled student per year in excess of 30 students per year. Any adjustments are made at the end of the following month or at the end of the lease year, as agreed by the parties.

On January 10, 2001, the Divinity Lutheran Church and the **PHCS** agreed to terminate the above described lease agreement. In this agreement the Community School was to pay rent through the month of January, 2001. Lease payments made to the church during the period July 1, 2000 through January 31, 2001 totaled \$19,500.

In January 2001 the **PHCS** moved its operations into the building which housed the **PCS**. The **PHCS** and the **PCS** agreed to share the costs of the lease and operation of this building in equal shares. For the period ending June 30, 2001 the **PHCS** paid \$17,887.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

VII. Management Company

The Governing Authority, which entered into the Community School Contract, with the Ohio Department of Education created the Constellation Community Schools which is a management company utilized to provide management consulting services to the **PHCS**. The two individuals who comprised the Governing Authority then were appointed to the Board of Trustees of the Constellation Community Schools. One member acts as the Board Chairman and the other as the Treasurer of the management company and the **PHCS**. During the time period covered by this report, the school was not required to pay any fees to the management company for its support services. The management company made payments to certain vendors and suppliers for the **PHCS** during the initial set up. As of the balance sheet date the school owes the management company \$22,923. This amount is reported as part of the accounts payable on the balance sheet.

On May 17, 2001 the **PHCS** entered into a Management Agreement with the Constellation Community Schools. The initial terms of this agreement commenced on July 1, 2001 and will end on June 30, 2002. However, the contract will automatically renew unless either party provides the other with a 90 days written notice of cancellation. The services to be provided by the management company will include facilities management, marketing and media relations, personnel services, centralized purchasing, inventory control, EMIS reporting assistance, financial reporting and record keeping and preparation of financial statements. In addition the management company will be responsible for certain educational services as enumerated in the agreement. For services performed by the Constellation Community Schools the **PHCS** required payment will be \$500 per student per year plus any out of pocket expenses which may be incurred.

VIII. Risk Management

1. Property and Liability

PHCS 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 2001, **PHCS** contracted with Cincinnati Insurance Company for all of its insurance.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

VIII. Risk Management (Continued)

1. Property and Liability (Continued)

General liability is covered at \$1,000,000 single occurrence limit and \$5,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Directors and Officers, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

PHCS makes premium payments to the Ohio Worker's Compensation System (WC) for employee injury coverage. As of June 30, 2001 there have been no claims filed by employees with WC.

3. Employee Medical, Dental, and Vision Benefits

PHCS provides medical insurance benefits to all full time employees. Up to \$3,500 in premiums are paid by **PHCS** for each employee that elects to have coverage. Those employees whose coverage exceeds the \$3,500 limit reimburse **PHCS** through payroll deduction. During the current fiscal year the cost to **PHCS** for medical insurance benefits was \$9,067.

IX. Defined Benefit Pension Plans

1. School Employees Retirement System

PHCS contributes to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 N. 4th St., Columbus, Ohio 43215-3634.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

IX. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System

Plan members are required to contribute 9% of their annual covered salary and **PHCS** is required to contribute 14%. For fiscal year 2001, 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute.

The adequacy of the contribution rates is determined annually. **PHCS'** required contribution to SERS for the Fiscal Year Ended June 30, 2001, was \$2,223. For fiscal year 2001 employee and **PHCS** contributions totaling \$1,294 were payable at year end. All other contributions were paid during fiscal year 2001.

2. State Teachers Retirement System

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

Plan members are required to contribute 9.3 % of their annual covered salary and **PHCS** is required to contribute 14%. The portion used to fund pension obligations was 9.5% Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and fourteen percent 14% for employers. **PHCS'** required contribution to STRS for the Fiscal Year Ended June 30, 2001, was \$19,005. For fiscal year 2001 employee and **PHCS** contributions totaling \$578 were payable at year end. All other contributions were paid during fiscal year 2001.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

X. Post-Employment Benefits

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. As of June 30, 2001, the board allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For **PHCS**, this amount equaled \$6,108 during fiscal 2001.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For **PHCS**, the amount to fund health care benefits, including surcharge, equaled \$1,556 during fiscal 2001.

XI. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

PARMA HEIGHTS COMMUNITY SCHOOL
— **A Community School** —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

XI. State School Funding Decision (Continued)

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 15, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, **PHCS** is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

XII. Contingencies

1. Grants.

PHCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of **PHCS**. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of **PHCS** at June 30, 2001.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

XII. Contingencies (Continued)

2. Litigation.

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on **PHCS** is not presently determinable.

XIII. Retained Earnings Beginning of the Year

At the fiscal year end June 30, 2000 **PHCS** had retained earnings in the total amount of \$87,620. These retained earnings were comprised of the following:

Federal Grant Funds	\$100,000
Less total start up expense incurred for the period ending June 30, 2000	<u>(12,380)</u>
Retained Earnings June 30, 2000	<u>\$ 87,620</u>

XIV. Related Party Transactions

The School and the Parma Community School have a common principal and school clerk. The entire salaries of these two individuals were paid by the **PHCS**. The estimated amount of the benefits provided to the **PCS**, for their services for the year ended June 30, 2001 was \$22,367 and recorded as a due from other governments on the balance sheet.

XV. Subsequent Events

The Governing Authority requested permission from the Ohio Department of Education to suspend the operations of the **PHCS** for the fiscal year 2002, pending a feasibility study. On June 14, 2001, the Board of Trustees of the **PHCS** voted to combine the **PHCS** the **PCS** for the 2001-2002 school year. On December 21, 2001, the Ohio Department of Education granted its final approval to suspend the operations of the **PHCS** for the 2001-2002 school year.

PARMA HEIGHTS COMMUNITY SCHOOL
— A Community School —
Cuyahoga County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

XV. Subsequent Events (Continued)

Subsequent to June 30, 2001, the **PHCS** paid all liabilities accrued at June 30, except amounts owed to related parties. The amounts due were comprised of \$4,415 due to Board of Trustees Chairman for legal services performed and \$22,923 amount due to Constellation Community Schools for payments made on behalf of **PHCS**.

On February 9, 2002, the Board of Trustees of the Constellation Community Schools voted to forgive the amounts due from **PHCS**. **PHCS** agreed in exchange for absolving the School of these liabilities, all capital assets and other tangible property of the School, in a total value not to exceed the amount of the liabilities, will be transferred to the Constellation Community Schools. The Board further resolved that after the liabilities had been satisfied all other remaining assets, property, and/or materials would be conveyed to the **PCS**.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Trustees
Parma Heights Community School
Cuyahoga County
7667 Day Drive
Parma, Ohio 44129

We have audited the financial statements of the Parma Heights Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 15, 2002, except for Note XV, as to which the date is February 9, 2002, in which we noted the Parma Heights Community School suspended operations and merged with the Parma Community School. 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.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 15, 2002.

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This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

January 15, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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PARMA HEIGHTS COMMUNITY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2002**