



**PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY
TABLE OF CONTENTS**

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets as of June 30, 2004	9
Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended June 30, 2004	10
Statement of Cash Flows for the Year Ended June 30, 2004	11
Notes to the Basic Financial Statements	13
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Parma Community School
Cuyahoga County
7667 Day Drive
Parma, Ohio 44109

We have audited the accompanying financial statements of the Parma Community School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2004, 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 Community School, Cuyahoga County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note XVI, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial State Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. 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.

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

Betty Montgomery
Auditor of State

December 17, 2004

PARMA COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Parma Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2004 include the following:

- In total, net assets increased \$108,063, which represents a 1085.9% increase from 2003. This increase is due primarily to an increased enrollment of 62 students resulting in increased state funding and federal subsidies. Also, the School purchased the building it occupies during the current fiscal year and collected rental income from a tenant totaling \$51,786.
- Total assets increased \$1,245,946, which represents a 914.6% increase from 2003. This increase is due primarily to an increase in the year end cash balance of \$85,031 and an increase in capital assets of \$1,167,982. The increase in cash balance is the result of increased enrollment. The increase in capital assets is due to the purchase of the building the school occupies.
- Liabilities increased \$1,137,883, which represents a 901.1% increase from 2003. Mortgages payable increased by \$1,166,954; leases payable decreased by \$71,550 and accounts payable increased by \$29,889 accounting for nearly all of the increase.
- Operating revenues increased by \$434,974, which represents a 44.8% increase from 2003. The majority of this increase (\$357,695) is due to increased enrollment resulting in increased state funding and federal subsidies. Additional increases are the result of rental income.
- Operating expenses increased by \$323,169, which represents a 30.2% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$8,482, which represents a 9.7% increase from 2003. This increase is due to increased state and federal grants.

PARMA COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2004. This statement includes all of the assets, liabilities and net asset balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Assets		
Cash	\$ 131,695	\$ 46,664
Other Current Assets	926	1,993
Security Deposits	-0-	6,000
Capital Assets	<u>1,249,556</u>	<u>81,574</u>
 Total Assets	 <u>1,382,177</u>	 <u>136,231</u>
 Liabilities		
Current Liabilities	90,209	54,730
Long-Term Liabilities	<u>1,173,954</u>	<u>71,550</u>
 Total Liabilities	 <u>1,264,163</u>	 <u>126,280</u>
 Net Assets		
Net Assets	<u>118,014</u>	<u>9,951</u>
 Total Liabilities and Net Assets	 <u>\$1,382,177</u>	 <u>\$ 136,231</u>

PARMA COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Net assets increased \$108,063, due primarily to increased enrollment and rental income from a building tenant. For assets, cash increased \$85,031; due from other governments decreased \$1,067; security deposits decreased \$6,000 and capital assets increased \$1,167,982 from 2003. For liabilities, accounts payable increased \$29,889; due to other governments increased \$11,900; accrued wages and benefits increased \$956; deferred revenues decreased \$7,266; leases payable decreased \$71,550; security deposits payable increased \$7,000 and mortgage notes payable increased \$1,166,954 from 2003.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets report operating and non-operating activities for the fiscal year ended June 30, 2004.

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Revenues		
Foundation and DPIA Revenues	\$1,256,483	\$ 898,788
Other Operating Revenues	149,236	71,957
Interest	834	545
Federal and State Grants	84,867	70,840
Private Grants and Contributions	<u>9,991</u>	<u>15,825</u>
Total Revenues	<u>1,501,411</u>	<u>1,057,955</u>
Expenses		
Salaries	573,746	403,602
Fringe Benefits	138,986	106,876
Purchased Services	414,746	397,937
Materials and Supplies	133,963	84,858
Capital Outlay	12,108	17,295
Depreciation	48,374	38,544
Other Operating Expenses	<u>71,425</u>	<u>21,067</u>
Total Expenses	<u>1,393,348</u>	<u>1,070,179</u>
Net Income/(Loss)	108,063	(12,224)
Net Assets at Beginning of Year	<u>9,951</u>	<u>22,175</u>
Net Assets at End of Year	<u>\$ 118,014</u>	<u>\$ 9,951</u>

PARMA COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Net assets increased in fiscal year ending June 30, 2004 and decreased in fiscal year ending June 30, 2003. This is due in part to increasing revenues due to increasing enrollment in 2004 and a lack of DPIA funding for full day kindergarten in year 2003. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations.

The most significant increases in revenues from 2003 to 2004 are Foundation and DPIA (increased \$357,695) due to enrollment increases; Other Operating Revenues (increased \$77,279) due mainly to rentals and Federal and State Grants (increased \$14,027) due primarily to enrollment increases.

All areas of expenses increased from 2003 to 2004. Salaries and Fringe Benefits increased (\$202,254) due to additional staffing and annual increases; Purchased services increased (\$16,809) due to additional instructional services, student support services and administrative services partially offset by a reduction in facilities services (the School purchased the building in which it is located during fiscal year 2004 to stabilize the facilities costs). Materials and Supplies increased (\$49,105) due to significant text book and classroom supplies purchases for additional classes and for facilities supplies. Capital Outlay decreased (\$5,187). Depreciation increased (\$9,830) as a direct result of the building purchase and building improvements. Other Operating Expenses increased (\$50,358) due to mortgage debt service.

Capital Assets

As of June 30, 2004 the School had capital assets of \$1,249,556 invested in computers and office equipment, furniture and equipment, building, building improvements and mortgage loan fees. This is a \$1,167,982 increase over June 30, 2003.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2003 and 2004.

	<u>2004</u>	<u>2003</u>
Capital Assets (net of depreciation)		
Computers and Office Equipment	\$ 29,860	\$ 37,143
Furniture, Equipment & Materials	12,600	12,330
Building	1,189,566	-0-
Building Improvements	15,103	-0-
Leasehold Improvements	-0-	32,101
Mortgage Loan Fees	<u>2,427</u>	<u>-0-</u>
Net Capital Assets	<u>\$1,249,556</u>	<u>\$ 81,574</u>

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

PARMA COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt Service

On November 28, 2003 the School purchased the building in which it operates. Financing of the purchase was accomplished through two mortgages. The first mortgage is held by US Bank National Association with a face value of \$900,000 for a term of fifteen years and an interest rate of 6.49% per annum. This mortgage is guaranteed by the Ohio School Facilities Commission for an amount up to \$765,000. The second mortgage is held by Thomas J. Coury, Trustee of the Thomas Coury Revocable Inter Vivos Trust with a face value of \$300,000 for a term of seven years and an interest rate of 8.00% per annum. The outstanding principal balances as of June 30, 2004 are \$883,279 and \$283,675 respectively.

For more information on debt service see the Notes to the Financial Statements.

Current Financial Issues

Parma Community School opened in the fall of 2000. In its fourth year of operations it has grown from 37 students, six teaching staff members and expenses of \$380,240 to a total of 228 students, fifteen teaching staff members and expenses of \$1,393,348. During this time we have also been able to purchase our own educational facility. As the School matures to an enrollment of nearly 360 students we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the monies it receives. If you have any questions about this report or need additional information please contact Thomas F. Babb, CPA, Treasurer at Constellation Community Schools, 3326 Broadview Road, Cleveland, Ohio 44109-3316; by calling 216.635.1881; by faxing 216.635.1883 or by e-mail to treasurer@constellationschools.com.

This page intentionally left blank.

**Parma Community School
Cuyahoga County
Statement of Net Assets
As of June 30, 2004**

Assets:

Current Assets:

Cash	\$131,695
Due from Other Governments	926
	<hr/>
<i>Total Current Assets</i>	<u>132,621</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	1,249,556
	<hr/>
<i>Total Assets</i>	<u><u>\$1,382,177</u></u>

Liabilities:

Current Liabilities:

Accounts Payable	\$51,010
Due Other Governments	12,071
Due Other Governments - DPIA	7,989
Accrued Wages and Benefits	1,294
Deferred Revenue	17,845
	<hr/>
<i>Total Current Liabilities</i>	<u>90,209</u>

Long Term Liabilities:

Security Deposit	\$7,000
Mortgage Notes Payable	1,166,954
	<hr/>
<i>Total Long Term Liabilities</i>	<u>1,173,954</u>
	<hr/>
<i>Total Liabilities</i>	<u>1,264,163</u>

Net Assets:

Invested in capital assets, net of related debt	82,602
Unrestricted	35,412
	<hr/>
<i>Total Net Assets</i>	<u><u>\$118,014</u></u>

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

**Parma Community School
Cuyahoga County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004**

Operating Revenues:

Foundation and DPIA Revenues	\$1,256,483
Other Operating Revenues	<u>149,236</u>
<i>Total Operating Revenues</i>	<u>1,405,719</u>

Operating Expenses:

Salaries	573,746
Fringe Benefits	138,986
Purchased Services	414,746
Materials and Supplies	133,963
Capital Outlay	12,108
Depreciation	48,374
Other Operating Expenses	<u>71,425</u>
<i>Total Operating Expenses</i>	<u>1,393,348</u>
Operating Income	<u>12,371</u>

Non-Operating Revenues:

Interest	834
Federal and State Grants	84,867
Private Grants and Contributions	<u>9,991</u>
<i>Total Non-Operating Revenues</i>	<u>95,692</u>
Net Income	<u>108,063</u>
Net Assets at Beginning of the Year	<u>9,951</u>
Net Assets at End of Year	<u><u>\$118,014</u></u>

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

**Parma Community School
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,264,472
Cash Payments to Suppliers for Goods and Services	(811,170)
Cash Payments to Employees for Services	(570,597)
Other Operating Revenues	141,970
	<hr/>
Net Cash Provided by Operating Activities	24,675
	<hr/>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	9,991
Federal and State Grants Received	85,934
	<hr/>
Net Cash Provided by Noncapital Financing Activities	95,925
	<hr/>

Cash Flows from Capital and Related Financing Activities:

Proceeds from Security Deposits Refunds	6,000
Proceeds from Security Deposits Collected	7,000
Payments for Capital Acquisitions	(1,216,357)
Mortgage Loan Proceeds	1,200,000
Mortgage Loan Payments	(33,046)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(36,403)
	<hr/>

Cash Flows from Investing Activities:

Interest	834
	<hr/>
Net Cash Provided by Investing Activities	834
	<hr/>

Net Increase in Cash	85,031
Cash at Beginning of Year	46,664
	<hr/>
Cash at End of Year	\$131,695
	<hr/> <hr/>

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

**Parma Community School
Cuyahoga County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

Operating Income	\$12,371
------------------	----------

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	48,374
--------------	--------

Changes in Assets and Liabilities:

Increase in Accounts Payable	29,889
Increase in Due Other Governments	4,001
Increase in Due Other Governments - DPIA	7,899
Increase in Accrued Wages and Benefits	957
(Decrease) in Deferred Revenue	(7,266)
(Decrease) in Leases Payable	(71,550)

Total Adjustments	12,304
-------------------	--------

Net Cash Provided by Operating Activities	\$24,675
---	----------

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

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

I. Description of the School and Reporting Entity

Parma Community School (PCS) 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. Effective September 19, 2001, PCS obtained 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 PCS' tax-exempt status. PCS, which is part of Ohio's education program, is independent of any school district. PCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PCS.

PCS was approved for operation under a contract between the Governing Authority of Parma Community School and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2000 and terminating on June 30, 2005. On October 16, 2003 PCS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. The sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See footnote XIV for further discussion of the sponsor services.

The Governing Authority formed a non-profit corporation on September 17, 1999 under the name Constellation Community Schools and on January 7, 2000, Constellation Community Schools (CCS) filed an application with the Ohio Secretary of State to do business under the trade name Parma Community School.

PCS operates under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. PCS controls one instructional facility staffed by one uncertified and fourteen certificated full time teaching personnel who provide services to 228 students.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

I. Description of the School and Reporting Entity (Continued)

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

II. Summary of Significant Accounting Policies

The financial statements of PCS 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.

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.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The PCS's financial statements are prepared 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 nonexchange transactions, in which the PCS 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 use is first permitted; matching requirements, in which the PCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the PCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash

All monies received by PCS are deposited 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 Revised Code Chapter 5705, unless specifically provided for in the school's contract with its sponsor. The contract between PCS and its sponsor does not prescribe a budgetary process requirement.

5. Due from Other Governments

Moneys due PCS for the year ended June 30, 2004 are recorded as Due from Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

6. 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. PCS does not possess any infrastructure.

Leasehold improvements are also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Capital Asset Classification	Years
Computers and Office Equipment	3
Furniture, Equipment and Materials	10
Building	40
Building Improvements	10
Mortgage Loan Fees	15

7. Intergovernmental Revenues

PCS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA"). 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.

Amounts awarded under the above named programs for the 2004 school year totaled \$1,341,350.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

8. Deferred Revenue

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

9. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, PCS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. PCS 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.

III. Deposits

At fiscal year end June 30, 2004, the carrying amount of PCS' deposits totaled \$131,695 and its bank balance was \$136,102. Of the bank balance \$100,000 was covered by the Federal Depository Insurance Corporation and \$36,102 was covered by US Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that US Bank pledge collateral for the deposits of the Parma Community School in a pool of securities under Section 135.181 of the Ohio Revised Code.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

IV. Capital Assets

A summary of PCS capital assets at June 30, 2004 follows:

	<u>Balance</u> <u>6/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/04</u>
Capital Assets Being Depreciated:				
Building	\$0	\$1,209,696	\$0	\$1,209,696
Building Improvements	0	15,103	0	15,103
Leasehold Improvements	67,004	0	(67,004)	0
Computers & Office Equipment	65,914	15,346	0	81,260
Furniture, Equipment & Materials	15,742	2,094	0	17,836
Total Assets Being Depreciated	<u>148,660</u>	<u>1,242,239</u>	<u>(67,004)</u>	<u>1,323,895</u>
Less Accumulated Depreciation:				
Building	0	(17,703)	0	(17,703)
Building Improvements	0	0	0	0
Leasehold Improvements	(34,903)	(6,218)	41,121	0
Computers & Office Equipment	(28,612)	(22,251)	0	(50,863)
Furniture, Equipment & Materials	(3,570)	(2,202)	0	(5,772)
Total Accumulated Depreciation	<u>(67,086)</u>	<u>(48,374)</u>	<u>41,121</u>	<u>(74,339)</u>
Total Capital Assets, Net	<u>\$81,574</u>	<u>\$1,193,865</u>	<u>(\$25,883)</u>	<u>\$1,249,556</u>

V. Purchased Services

Purchased Services include the following:

Occupancy Costs	\$103,870
Pupil Support Services	52,696
Instruction	47,579
Administrative	192,854
Staff Development	<u>17,747</u>
Total	<u>\$414,746</u>

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VI. Operating Leases

PCS leased its facilities located at 7767 Day Drive from T.C. Pinnacle Properties, Ltd. under a five-year lease agreement effective July 1, 2000. The lease provided PCS with an option to renew for two additional five year terms. In addition, PCS had an option to purchase the building in which the premises are located at a price of \$1,200,000. Total rents paid to T.C. Pinnacle Properties, Ltd. from July through November 2003 totaled \$59,625.

PCS recognized these non-cancelable lease costs on the straight line basis. At June 30, 2003 PCS had recorded \$71,550 as leases payable on the statement of net assets. This amount represented the difference between rental payments made and the amounts due, based on the straight line basis over the life of the lease.

On August 25, 2003 PCS entered into a lease arrangement with Parma Park Church of God to lease additional classroom space for the 5th 6th and 7th grade classes at 12000 Huffman Road Parma, Ohio. Under the terms of the lease, monthly payments of \$1,900 began in August 2003 for a period of twelve months. Total rents paid to Parma Park Church of God during fiscal year totaled \$20,900.

VII. Day Drive Building Purchase

On November 28, 2003, PCS purchased the building it occupied at 7767 Day Drive, Parma. The purchase price of \$1,200,000, along with other purchase costs totaling \$7,172, have been capitalized and will be depreciated over a forty year period. All operations of the school are located at this site.

At the time of purchase there was one tenant in the building, Summit Academy Community School for Alternative Learners – Parma (Summit Academy). Summit Academy has a lease through June 30, 2005 with a monthly lease payment of \$7,216 and has a security deposit of \$7,000 in the custody of PCS. PCS collected rents totaling \$51,786, prorated from the purchase date, during fiscal year 2004.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VIII. Mortgage Notes Payable

On November 26, 2003, PCS entered into two mortgage agreements relating to the purchase of the property at 7667 Day Drive (see note VII).

A first mortgage note in the amount of \$900,000 is held by US Bank National Association. The note is for a term of fifteen years with an interest rate of 6.49 percent per annum. The Ohio School Facilities Commission has guaranteed the first mortgage up to \$765,000.

A second mortgage note in the amount of \$300,000 is held by Thomas J. Coury, Trustee of the Thomas Coury Revocable Inter Vivos Trust (Coury Trust) and is subordinate to the first mortgage. The note is for a term seven years with an interest rate of 8.00 percent per annum.

During fiscal year 2004 principal was reduced by \$16,721 for US Bank National Association and \$16,325 for Coury Trust. Interest expense totaled \$35,066 for US Bank National Association and \$13,621 for Coury Trust. As of June 30, 2004 outstanding principal balances are \$883,279 for the first mortgage and \$283,675 for the second mortgage. Interest payable totaling \$4,777 due US Bank National Association and \$1,891 due Coury Trust has been recorded as a current liability as of June 30, 2004.

Principal payments due on the mortgage notes are as follows:

Year	US Bank	Coury Trust
2005	36,997	34,669
2006	39,508	37,547
2007	42,186	40,663
2008	44,912	44,038
2009	48,093	47,693
After 2009	<u>671,583</u>	<u>79,065</u>
Total	\$883,279	\$283,675

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

IX. Risk Management

1. Property and Liability Insurance

PCS 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 2004, PCS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$300,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

PCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2004, there have been no claims filed by PCS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Life Benefits

PCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. During the current fiscal year the cost to PCS for medical insurance benefits was \$39,350.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

X. Defined Benefit Pension Plans

1. School Employees Retirement System

PCS contributes to the School Employees Retirement System of Ohio (“SERS”), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and PCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of PCS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. PCS’ required contribution for pension obligations to SERS for the fiscal year ended June 30, 2004, 2003 and 2002, were \$3,389, \$3,381 and \$1,318. For fiscal year 2004, PCS contributions totaling \$499 were payable at year end and are reflected as Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

2. State Teachers Retirement System

PCS 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

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

X. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC or the Combined Plan. This option expired on December 31, 2003. 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.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

X. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and PCS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

PCS' required contribution for pension obligations to the DB Plan to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$69,195, \$47,088 and \$27,484. For fiscal year 2004, PCS contributions totaling \$210 were payable at year end and are reflected as Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

XI. Post-Employment Benefits

PCS 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the 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 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For PCS, this amount equaled \$5,323 during fiscal 2004.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

XI. Post-Employment Benefits (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For PCS, the amount to fund health care benefits, including surcharge, equaled \$3,054 for fiscal 2004.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million dollars. At June 30, 2003, SERS had net assets available for health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

XII. State School Funding Decision

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

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

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

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

XIII. Contingencies

1. Grants

PCS 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 PCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PCS at June 30, 2004.

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 PCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2004.

XIV. Sponsorship and Management Agreements

PCS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by PCS, from the State of Ohio. The total amount due from PCS for the period November 2003 to June 2004 was \$7,724, all of which was paid prior to June 30, 2004.

PARMA COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

XIV. Sponsorship and Management Agreements (Continued)

PCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2004. The agreement was for a period of one year, effective July 1, 2003. Management fees are calculated as 10% of the 2003/2004 Foundation payment received by PCS, as reported in the Monthly Community School Foundation Report. The total amount due from PCS for the fiscal year ending June 30, 2004 was \$125,648 of which \$991 was due back as a credit from CCS and is included in accounts payable as of June 30, 2004.

XV. Related Parties

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

XVI. Change in Accounting Principles

For fiscal year 2004, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". GASB 34 creates new basic financial statements for reporting on the School's financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. As a result of this change, certain financial statement amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Parma Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2004 which comprise the School's basic financial statements and have issued our report thereon dated December 17, 2004, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report 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 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 December 17, 2004.

Parma Community School
Cuyahoga County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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.

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

Betty Montgomery
Auditor of State

December 17, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 13, 2005**