PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

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, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Parma Community School, Cuyahoga County, Ohio, as of June 30, 2005 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

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.

Betty Montgomery

Betty Montgomery
Auditor of State

December 23, 2005

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, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2005 include the following:

- In total, net assets increased $111,146, which represents a 94.2% increase from 2004. This increase is due primarily to rental income ($86,588) earned from leasing space in the building owned by the school and from increased enrollment resulting in increased state funding and federal subsidies.

- Total assets increased $10,164, which represents a 0.7% increase from 2004. This increase is due to an increase in the year end cash of $42,743, and an increase in current assets of $10,699 offset by a decrease in net capital assets of $43,278. The cash balance increase is due to cash flow efficiencies due to the growth of the school. The decrease in capital assets is due primarily to depreciation of capital assets.

- Liabilities decreased $100,982, which represents an 8.0% decrease from 2004. Mortgages payable decreased by $78,666, accounts payable decreased by $14,394, deferred revenue increased by $4,240 and other current liabilities (mainly payroll related) decreased by a total of $12,162.

- Operating revenues increased by $339,114, which represents a 24.1% increase from 2004. The majority of this increase ($337,780) is due to increased enrollment resulting in increased state funding. Additional increases are the result of rental income, materials fees and student activities.

- Operating expenses increased by $363,897, which represents a 26.1% increase from 2004. 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 $27,866, which represents a 29.1% increase from 2004. This increase is due mostly to increased Federal and State Grants in the amount of $33,389 plus increased interest earned of $262 offset by a decrease in private grants of $5,785.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets looks at how well the school has performed financially from inception through June 30, 2005. This statement includes all of the assets, liabilities and equity balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

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

	2005	2004
Assets		
Cash	$ 174,438	$ 131,695
Other Current Assets	11,625	926
Capital Assets	1,206,278	1,249,556
Total Assets	1,392,341	1,382,177
Liabilities		
Current Liabilities	67,894	90,209
Long-Term Liabilities	1,095,287	1,173,954
Total Liabilities	1,163,181	1,264,163
Net Assets		
Net Assets	229,160	118,014
Total Liabilities and Net Assets	$1,392,341	$1,382,177

Net Assets increased $111,146, due primarily to increased enrollment and rental income. For assets, cash increased $42,743; due from other governments increased $10,475; accounts receivable increased $224 and net capital assets decreased $43,278 from 2004. For liabilities, accounts payable decreased $14,394; due to other governments decreased $19,119; accrued wages and benefits increased $721; interest payable increased $6,237; deferred revenues increased $4,240 and mortgage notes payable decreased $78,666 from 2004.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets reports operating and non-operating activities for the fiscal year ended June 30, 2005.

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

	2005	2004
Revenues		
Foundation and DPIA Revenues	$1,594,263	$1,256,483
Other Operating Revenues	150,570	149,236
Interest	1,096	834
Federal and State Grants	118,256	84,867
Private Grants and Contributions	4,206	9,991
Total Revenues	1,868,391	1,501,411
Expenses		
Salaries	721,118	573,746
Fringe Benefits	170,551	138,986
Purchased Services	564,074	414,746
Materials and Supplies	105,691	133,963
Capital Outlay	15,072	12,108
Depreciation	60,316	48,374
Other Operating Expenses	120,423	71,425
Total Expenses	1,757,245	1,393,348
Net Income	111,146	108,063
Net Assets at Beginning of Year	118,014	9,951
Net Assets at End of Year	$ 229,160	$ 118,014

Net Assets increased in both fiscal years ending June 30, 2004 and 2005. This is due in part to increasing revenues due to increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to supplement various educational programs and purchase educational equipment.

The most significant increases in revenues from 2004 to 2005 are Foundation and DPIA (increased $337,780) due to enrollment increases and increases in formula amounts and Federal and State Grants (increased $33,389) due mainly to increased title allocations. These increases were offset by a reduction in Private Grants and Contributions (decreased $5,785).

Most areas of expenses increased from 2004 to 2005. Salaries and Fringe Benefits increased ($178,937) due to additional staffing and annual increases; Purchased services increased ($149,328) due to additional instructional services, pupil support services, administrative services and occupancy costs. Materials and Supplies decreased ($28,272) due to having adequate inventory of text book and classroom supplies and for facilities supplies. Depreciation increased ($11,942) as a direct result of the purchase of computers and equipment and additional building improvements. Other Operating Expenses decreased ($48,998) due to mortgage debt service and insurance premiums.

Capital Assets

As of June 30, 2005 the School had $1,206,278 invested in computers and office equipment, furniture and equipment, building, building improvements and mortgage loan fees, net of depreciation. This is a $43,278 decrease from June 30, 2004.

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

	2005	2004
Capital Assets (net of depreciation)		
Computers and Office Equipment	$ 14,620	$ 29,860
Furniture and Equipment	10,777	12,600
Building & Mortgage Loan Fees	1,161,645	1,191,993
Building Improvements	19,236	15,103
Net Capital Assets	$1,206,278	$1,249,556

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

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 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, 2005 are $846,282 and $249,006 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 fifth year of operations it has grown from 37 students, six teaching staff members and expenses of $380,240 to a total of 286 students, 22 teaching staff members and expenses of $1,757,245. During this time we have also been able to purchase our own educational facility. As the School matures to full enrollment we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

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

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Parma Community School
Cuyahoga County
Statement of Net Assets
For the Fiscal Year Ended June 30, 2005

Assets:	
Current Assets:	
Cash	$174,438
Due from Other Governments	11,401
Accounts Receivable	224
Total Current Assets	186,063
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	1,206,278
Total Assets	$1,392,341
Liabilities:	
Current Liabilities:	
Accounts Payable	$36,616
Due Other Governments	941
Accrued Wages and Benefits	2,015
Interest Payable	6,237
Deferred Revenue	22,085
Total Current Liabilities	67,894
Long Term Liabilities:	
Mortgage Notes Payable	1,095,287
Total Liabilities	1,163,181
Net Assets:	
Investment in capital assets, net of related debt	110,991
Unrestricted	118,169
Total Net Assets	$229,160

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, 2005

Operating Revenues:	
Foundation and DPIA Revenues	$1,594,263
Other Operating Revenues	150,570
Total Operating Revenues	1,744,833
Operating Expenses:	
Salaries	721,118
Fringe Benefits	170,551
Purchased Services	564,074
Materials and Supplies	105,691
Capital Outlay	15,072
Depreciation	60,316
Other Operating Expenses	120,423
Total Operating Expenses	1,757,245
Operating Loss	(12,412)
Non-Operating Revenues:	
Interest	1,096
Federal and State Grants	118,256
Private Grants and Contributions	4,206
Total Non-Operating Revenues	123,558
Net Income	111,146
Net Assets at Beginning of the Year	118,014
Net Assets at End of Year	$229,160

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, 2005

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,586,274
Cash Payments to Suppliers for Goods and Services	(996,392)
Cash Payments to Employees for Services	(719,103)
Other Operating Revenues	154,586
Net Cash Provided by Operating Activities	25,365
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions Received	4,206
Federal and State Grants Received	107,780
Net Cash Provided by Noncapital Financing Activities	111,986
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(17,038)
Payments for Security Deposit Refund	(7,000)
Mortgage Loan Payments	(71,666)
Net Cash Used for Capital and Related Financing Activities	(95,704)
Cash Flows from Investing Activities:	
Interest	1,096
Net Cash Provided by Investing Activities	1,096
Net Increase in Cash	42,743
Cash at Beginning of Year	131,695
Cash at End of Year	$174,438

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, 2005
(Continued)

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

Operating Loss	($12,412)

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

Depreciation	60,316
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(224)
(Decrease) in Accounts Payable	(14,394)
(Decrease) in Due Other Governments	(11,130)
(Decrease) in Due Other Governments - DPIA	(7,989)
Increase in Accrued Wages and Benefits	721
Increase in Interest Payable	6,237
Increase in Deferred Revenue	4,240
Total Adjustments	37,777
Net Cash Provided by Operating Activities	$25,365

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

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 twenty two certificated full time teaching personnel who provide services to 268 students.

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. PCS 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 PCS' 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. PCS 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 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 the use is first permitted; matching requirements, in which PCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to PCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

II. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

3. Cash

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

4. Budgetary Process

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

5. Due from Other Governments and Accounts Receivable

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

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 fixed 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 fixed assets are depreciated over the remaining useful lives of the related fixed assets. All items with a useful life of one year or greater and a value of $500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	**Years**
Computers and Office Equipment	3
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 2005 school year totaled $1,712,519.

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, 2005, the carrying amount of PCS' deposits totaled $174,438 and its bank balance was $191,197. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, $91,197 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, PCS 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 PCS.

IV. Capital Assets

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

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Capital Assets Being Depreciated:				
Building	$1,209,696	$0	$0	$1,209,696
Building Improvements	15,103	5,529	0	20,632
Computers/Office Equipment	81,761	11,508	0	93,269
Furniture, Equipment & Materials	17,335	0	0	17,335
Total Capital Assets Being Depreciated:	1,323,895	17,037	0	1,340,932
Less Accumulated Depreciation:				
Building	(17,703)	(30,348)	0	(48,051)
Building Improvements	0	(1,396)	0	(1,396)
Computers & Office Equip	(51,902)	(26,747)	0	(78,649)
Furniture, Equipment & Materials	(4,734)	(1,824)	0	(6,558)
Total Accumulated Depreciation:	(74,339)	(60,315)	0	(134,654)
Total Capital Assets, Net of Accumulated Depreciation	$1,249,556	$(43,278)	$0	$1,206,278

V. Purchased Services

Purchased Services include the following:

Instruction	$83,312
Pupil Support Services	90,045
Staff Development & Support	23,790
Administrative	240,110
Occupancy Costs	126,818
Total	$564,075

VI. Operating Leases

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. This lease was renewed in August 2004 on a month to month basis. Under the terms of the renewal, monthly payments increased from $1,900 to $4,500 beginning in August 2004. Total rents paid to Parma Park Church of God during fiscal year totaled $51,400. PCS vacated the lease at the end of June 2005.

VII. Day Drive Building Purchase

On November 28, 2003, PCS purchased the building it occupied at 7667 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 had a lease through June 30, 2005 with a monthly lease payment of $7,216 and had a security deposit of $7,000 in the custody of PCS. PCS collected rents totaling $86,588 during fiscal year 2005. Summit Academy vacated the premises at the expiration of their lease.

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 2005 principal was reduced by $36,997 for US Bank National Association and $34,669 for Coury Trust. Interest expense totaled $56,823 for US Bank National Association and $21,210 for Coury Trust. As of June 30, 2005 outstanding principal balances are $846,282 for the first mortgage and $249,006 for the second mortgage. Interest payable totaling $4,577 due US Bank National Association and $1,660 due Coury Trust has been recorded as a current liability as of June 30, 2005.

VIII. Mortgage Notes Payable (continued)

Principal payments due on the mortgage notes are as follows:

Year	US Bank	Coury Trust
2006	39,508	37,547
2007	42,186	40,663
2008	44,912	44,038
2009	48,093	47,693
2010	51,355	51,652
After 2010	620,228	27,413
Total	$846,282	$249,006

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

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

2. Workers' Compensation

PCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2005, there have been no claims filed by 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 $47,730.

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 43215-3476 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 2005, 10.57 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. PCS' required contribution for pension obligations to SERS for the fiscal year ended June 30, 2005, 2004 and 2003, were $3,839, $3,389 and $3,381. For fiscal years 2005 2004 and 2003, PCS made all required contributions.

2. State Teachers Retirement System

PCS contributes to the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and 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 Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090.

X. Defined Benefit Pension Plans (Continued)

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

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

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

X. Defined Benefit Pension Plans (Continued)

PCS' required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004 and 2003 were $87,637, $69,195 and $47,088. For fiscal year 2005, PCS contributions totaling $358 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, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For PCS, this amount equaled $6,741 during fiscal 2005.

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

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

XI. Post-Employment Benefits (Continued)

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent form fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer’s SERS salaries. For PCS, the amount to fund health care benefits, including surcharge, equaled $3,454 for fiscal 2005.

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

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.

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, 2005.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on 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 2005.

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 fiscal year 2005 was $15,876, all of which was paid prior to June 30, 2005.

PCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2005. The agreement was for a period of one year, effective July 1, 2004. Management fees are calculated as 11% of the 2004/2005 Foundation payment received by PCS, as reported in the Monthly Community School Foundation Report. The total amount due from PCS for the fiscal year ending June 30, 2005 was $175,369 all of which was paid prior to June 30, 2005.

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.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

Betty Montgomery

Betty Montgomery
Auditor of State

December 23, 2005

Auditor of State
Betty Montgomery

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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 12, 2006