PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

PARMA COMMUNITY SCHOOL
CUYAHOGA COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Parma Community School
Cuyahoga County
7667 Day Drive
Parma, Ohio 44129

To the Board of Trustees:

We have audited the accompanying basic financial statements of Parma Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2006, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parma Community School, Cuyahoga County, Ohio, as of June 30, 2006 and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2007, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 22, 2007

The discussion and analysis of Parma Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. 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 2006 include the following:

- In total, net assets increased $48,760, which represents a 21.3% increase from 2005. This increase is due primarily to increased enrollment resulting in increased state funding and federal subsidies.

- Total assets decreased $27,126, which represents a 1.9% decrease from 2005. This decrease is due to a decrease in the year end cash of $89,920 offset by an increase in current assets of $1,527 and an increase in net capital assets of $61,266. The cash balance decrease is due primarily to building improvements ($87,522) and equipment and furniture purchases ($11,450) offset by efficiencies due to the growth of the school.

- Liabilities decreased $75,887, which represents a 6.5% decrease from 2005. Mortgages payable decreased by $77,048, accounts payable decreased by $6,516, and other current liabilities (mainly payroll related) increased by $7,677.

- Operating revenues increased by $144,381 which represents an 8.3% increase from 2005. The majority of this increase ($193,161) is due to increased enrollment resulting in increased state funding offset by decreases in other revenues (mainly rental income).

- Expenses increased by $232,602, which represents a 13.2% increase from 2005. 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 as well as a one-time $10,540 correction to accumulated depreciation during the year.

- Non-operating revenues increased by $25,835, which represents a 20.9% increase from 2005. This increase is due mostly to increased Federal and State Grants in the amount of $27,008 offset by a decrease in interest earned and a decrease in private grants.

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, 2006. This statement includes all of the assets, liabilities and net assets using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

The following schedule provides a summary of the School's Statement of Net Assets for fiscal years ended June 30, 2006 and 2005.

	2006	2005
Assets		
Cash	$ 84,518	$ 174,438
Other Current Assets	13,153	11,625
Capital Assets	1,267,544	1,206,278
Total Assets	1,365,215	1,392,341
Liabilities		
Current Liabilities	69,055	67,894
Long-Term Liabilities	1,018,240	1,095,287
Total Liabilities	1,087,295	1,163,181
Net Assets		
Net Assets	277,920	229,160
Total Liabilities and Net Assets	$1,365,215	$1,392,341

Net Assets increased $48,760, due primarily to increased enrollment. For assets, cash decreased $89,920; due from other governments decreased $10,446; accounts receivable increased $11,973 and net capital assets increased $61,266 from 2005. For liabilities, accounts payable decreased $6,516; due to other governments increased $6,294; accrued wages and benefits increased $2,122; interest payable decreased $610; deferred revenues decreased $130 and mortgage notes payable decreased $77,048 from 2005.

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, 2006.

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, 2006 and 2005.

	2006	2005
Revenues		
Foundation and Assistance Revenues	$1,787,424	$1,594,263
Other Operating Revenues	101,790	150,570
Operating Revenues	1,889,214	1,744,833
Interest	993	1,096
Federal and State Grants	145,264	118,256
Private Grants and Contributions	3,136	4,206
Non-Operating Revenues	149,393	123,558
Total Revenues	2,038,607	1,868,391
Expenses		
Salaries	922,057	721,118
Fringe Benefits	220,901	170,551
Purchased Services	486,764	564,074
Materials and Supplies	150,055	105,691
Capital Outlay	31,553	15,072
Depreciation	37,705	60,316
Other Operating Expenses	140,812	120,423
Total Expenses	1,989,847	1,757,245
Net Income	48,760	111,146
Net Assets at Beginning of Year	229,160	118,014
Net Assets at End of Year	$ 277,920	$ 229,160

Net Assets increased in both fiscal years ending June 30, 2005 and 2006. This is due primarily to increasing revenues from 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 2005 to 2006 are Foundation and Poverty Based Assistance funds increased $193,161 due to enrollment increases and increases in formula amounts. Federal and State Grants increased $27,008 due mainly to increased title allocations. These increases were offset by a $1,070 reduction in Private Grants and Contributions and a $103 reduction in interest income.

Most areas of expenses increased from 2005 to 2006. Salaries and Fringe Benefits increased $251,289 due to additional staffing, annual increases and hiring staff previously obtained as a purchased service. Purchased services decreased $77,310 due to hiring instructional services directly as employees offset by additional pupil support services, administrative services and occupancy costs. Materials and Supplies increased $44,364 and Capital Outlay increased $16,481 due to purchasing text books, classroom supplies, furniture and equipment for added classrooms. Depreciation decreased $22,611 as a direct result of having fully depreciated equipment at the end of fiscal year 2005 offset by the purchase of furniture and equipment and additional building improvements and a one-time $10,540 correction to accumulated depreciation. Other Operating Expenses increased $20,389 due to mortgage debt service, insurance premiums and property taxes.

Capital Assets

As of June 30, 2006 the School had $1,267,544 invested in land (not being depreciated), buildings, (including mortgage loan fees), building improvements, computers and office equipment, furniture, equipment and materials, net of depreciation where applicable. This is a $61,266 increase from June 30, 2005.

The following schedule provides a summary of the School's Capital Assets as of June 30, 2006 and 2005.

	2006	2005
Capital Assets (net of depreciation where applicable))		
Land (not depreciated)	$ 163,200	$ 163,200
Buildings (including Mortgage Loan Fees)	978,637	998,445
Building Improvements	102,200	19,236
Computers and Office Equipment	14,554	14,620
Furniture, Equipment & Materials	8,953	10,777
Net Capital Assets	$1,267,544	$1,206,278

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

Debt Service

On November 28, 2003 the School purchased the land and 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, 2006 are $806,781 and $211,459 respectively.

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

Current Financial Issues

The School opened in the fall of 2000. In its sixth year of operations it has grown from 37 students, six teaching staff members and expenses of $380,240 to a total of 319 students, 29 teaching staff members and expenses of $1,989,847. During this time we have also been able to purchase our own educational facility. As the School continues to grow and mature 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.

This page intentionally left blank.

Parma Community School
Cuyahoga County
Statement of Net Assets
As of June 30, 2006

Assets:	
Current Assets:	
Cash	$84,518
Due from Other Governments	955
Accounts Receivable	12,198
Total Current Assets	97,671
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	1,267,544
Total Assets	$1,365,215
Liabilities:	
Current Liabilities:	
Accounts Payable	$30,100
Due Other Governments	7,235
Accrued Wages and Benefits	4,137
Interest Payable	5,628
Deferred Revenue	21,955
Total Current Liabilities	69,055
Long Term Liabilities:	
Mortgage Notes Payable	1,018,240
Total Liabilities	1,087,295
Net Assets:	
Investment in capital assets, net of related debt	249,304
Unrestricted	28,616
Total Net Assets	$277,920

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, 2006

Operating Revenues:	
Foundation and Poverty Based Assistance Revenues	$1,787,424
Other Operating Revenues	101,790
Total Operating Revenues	1,889,214
Operating Expenses:	
Salaries	922,057
Fringe Benefits	220,901
Purchased Services	486,764
Materials and Supplies	150,055
Capital Outlay	31,553
Depreciation	37,705
Other Operating Expenses	140,812
Total Operating Expenses	1,989,847
Operating Loss	(100,633)
Non-Operating Revenues:	
Interest	993
Federal and State Grants	145,264
Private Grants and Contributions	3,136
Total Non-Operating Revenues	149,393
Net Income	48,760
Net Assets at Beginning of the Year	229,160
Net Assets at End of Year	$277,920

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, 2006

Increase (Decrease) in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,794,659
Cash Payments to Suppliers for Goods and Services	(1,039,794)
Cash Payments to Employees for Services	(918,292)
Other Operating Revenues	89,687
Net Cash Used for Operating Activities	(73,740)
Cash Flows from Noncapital Financing Activities:	
Private Grants and Contributions Received	3,136
Federal and State Grants Received	155,711
Net Cash Provided by Noncapital Financing Activities	158,847
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(98,972)
Payments for Security Deposit Refund	0
Mortgage Loan Payments	(77,048)
Net Cash Used for Capital and Related Financing Activities	(176,020)
Cash Flows from Investing Activities:	
Interest	993
Net Cash Provided by Investing Activities	993
Net Decrease in Cash	(89,920)
Cash at Beginning of Year	174,438
Cash at End of Year	$84,518

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, 2006
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($100,633)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	37,705
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(11,973)
(Decrease) in Accounts Payable	(6,516)
Increase in Due Other Governments	6,294
Increase in Accrued Wages and Benefits	2,122
(Decrease) in Interest Payable	(609)
(Decrease) in Deferred Revenue	(130)
Total Adjustments	26,893
Net Cash Used for Operating Activities	($73,740)

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 XIII 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 nine certificated full time teaching personnel who provide services to 319 students.

PCS entered into an agreement with Constellation Community Schools (CCS) to provide management services for the fiscal year. See Note XIII for further discussion of this management agreement. The Board members of PCS were also Board members of CCS until June 15, 2006 at which time a separate CCS Board was formed. PCS Board members are also Board members of Old Brooklyn Community 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, Lorain Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

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.

For fiscal year 2006, PCS has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries,"

II. Summary of Significant Accounting Policies (Continued)

2. Measurement Focus and Basis of Accounting

GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section," and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 44 is to improve the understandability and usefulness of the information that State and local governments present as supplementary information in the statistical section.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statements Nos. 42 and 47 did not materially affect the presentation of the financial statements for PCS and GASB Statement No. 44 does not apply to PCS.

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, 2006 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
Buildings	40
Building Improvements	10
Mortgage Loan Fees	15
Computers and Office Equipment	3
Furniture, Equipment and Materials	10

7. Intergovernmental Revenues

PCS currently participates in the State Foundation Program and the State Poverty Based Assistance Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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 2006 school year totaled $1,932,688.

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, 2006, the carrying amount of PCS' deposits totaled $84,518 and its bank balance was $115,028. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, $15,028 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, 2006 follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Capital Assets Not Depreciated:				
Land	$163,200	$0	$0	$163,200
Capital Assets Being Depreciated:				
Buildings	1,046,496	0	0	1,046,496
Building Improvements	20,632	87,522	0	108,154
Computers/Office Equipment	93,269	11,450	0	104,719
Furniture, Equipment & Materials	17,335	0	0	17,335
Total Capital Assets Being Depreciated:	1,177,732	98,972	0	1,273,704
Less Accumulated Depreciation:				
Buildings	(48,051)	(19,808)	0	(67,859)
Building Improvements	(1,396)	(4,558)	0	(5,954)
Computers & Office Equipment	(78,649)	(11,516)	0	(90,165)
Furniture, Equipment & Materials	(6,558)	(1,824)	0	(8,382)
Total Accumulated Depreciation:	(134,654)	(37,706)	0	(172,360)
Total Capital Assets Being Depreciated, Net	1,043,078	61,266	0	1,104,344
Total Capital Assets Net	$1,206,278	$61,266	$0	$1,267,544

V. Purchased Services

Purchased Services include the following:

Instruction	$40,585
Pupil Support Services	76,100
Staff Development & Support	12,899
Administrative	256,321
Occupancy Costs	100,859
Total	$486,764

VI. Mortgage Notes Payable

On November 26, 2003, PCS purchased the building it occupied at 7667 Day Drive, Parma. The purchase prices of $1,200,000, along with the other purchase costs totaling $7,172 have been capitalized.

PCS entered into two mortgage agreements relating to the purchase of the property at 7667 Day Drive. 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 2006 principal was reduced by $39,501 for US Bank National Association and $37,547 for Coury Trust. Interest expense totaled $54,160 for US Bank National Association and $18,313 for Coury Trust. As of June 30, 2006 outstanding principal balances are $806,781 for the first mortgage and $211,459 for the second mortgage. Interest payable totaling $4,218 due US Bank National Association and $1,410 due Coury Trust has been recorded as a current liability as of June 30, 2006. Principal payments due on the mortgage notes are as follows:

Year	US Bank	Coury Trust
2007	$ 42,186	$ 40,663
2008	44,912	44,038
2009	48,093	47,693
2010	51,355	51,652
2011	54,838	27,413
2012-2016	416,401	0
2017-2019	148,996	0
Total	$806,781	$211,459

VII. 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 2006, PCS contracted with Cincinnati Insurance Company for all of its' insurance.

VII. Risk Management (Continued)

1. Property and Liability Insurance (Continued)

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, 2006, 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 $68,570.

VIII. 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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 by calling (800)878-5853 or by visiting the SERS website at ohsers.org.

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 for PCS 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 2006, 10.58 percent of annual covered salary was the portion to fund pension obligations.

IX. Defined Benefit Pension Plans (Continued)

1. School Employees Retirement System (Continued)

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 years ended June 30, 2006, 2005 and 2004 were $5,657, $3,839 and $3,389. For fiscal year 2006, all required contributions have been made.

2. State Teachers Retirement System

PCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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

IX. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

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, 2006, plan members were required to contribute 10 percent of their annual covered salary. PCS was required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

PCS' required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005 and 2004 were $112,917, $87,637 and $69,195. For fiscal year 2006, PCS contributions totaling $1,727 were overpaid at year end and are reflected in Due from Other Governments in the accompanying financial statements. All other required contributions have been made.

X. Post-Employment Benefits

PCS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For PCS, this amount equaled $8,686 during fiscal 2006.

X. Post-Employment Benefits (Continued)

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For PCS, the amount contributed to fund health care benefits, including surcharge, during the 2006 fiscal year equaled $2,634.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were $178,221,113. At June 30, 2005, SERS had net assets available for health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

XI. 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.

XII. 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 requires compliance with terms and conditions, specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of 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, 2006.

2. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. 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 adjustments to the state funding received during fiscal year 2006 are reflected in the financial statements.

XIII. 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 2006 was $17,947, of which $1,404 was outstanding as of June 30, 2006.

PCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2006. The agreement was for a period of one year, effective July 1, 2004. Management fees are calculated as 11% of the Fiscal Year 2006 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, 2006 was $196,617 all of which $694 was overpaid prior to June 30, 2006 and has been credited to the next fiscal year.

XIII. Sponsorship and Management Agreements Continued)

In addition PCS is participating in a payroll bonus reserve established through CCS. Payroll bonus reserve fees are calculated as 1% of the Fiscal Year 2006 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, 2006 was $17,848 of which $3 was overpaid prior to June 30, 2006 and has been credited to the next fiscal year.

XIV. Related Parties

The Board members of PCS were also Board members of CCS until June 15, 2006 at which time a separate CCS Board was formed. PCS contracts with CCS for legal, financial and business management services.

PCS Board members are also Board members of Old Brooklyn Community 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, Lorain Academy for Gifted Students, Lorain Community Middle School, Old Brooklyn Community Middle School, Westpark Community Middle School and Outreach Academy for Children with Disabilities.

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

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

Parma Community School
Cuyahoga County
7667 Day Drive
Parma, Ohio 44129

To the Board of Trustees:

We have audited the basic financial statements of Parma Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 22, 2007. 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 opinion 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 audited 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 March 22, 2007, 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*. In a separate letter to the School's management dated March 22, 2007, we reported another matter related to noncompliance we deemed immaterial.

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.

Mary Taylor, CPA
Auditor of State

March 22, 2007

Mary Taylor, CPA
Auditor of State

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
MAY 29, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us