



**Auditor of State
Betty Montgomery**

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

The Mollie Kessler School
Mahoning County
118 East Wood Street
Youngstown, Ohio 44503

To the Governing Board:

We have audited the accompanying Balance Sheet of the Mollie Kessler School, Mahoning County, (the School), as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended, the initial audit of the school, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mollie Kessler School, Mahoning County, as of June 30, 2003, and the results of its operations 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 May 10, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 10, 2004

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**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

Balance Sheet
As of June 30, 2003

Assets

Current Assets

Cash and Cash Equivalents	\$87,668
Receivables:	
Accounts	5,350
Intergovernmental Receivable	151,668
Prepaid Items	171
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Total Current Assets 244,857

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	22,864
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Total Assets \$ 267,721

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	2,095
Accrued Wages and Benefits	24,823
Intergovernmental Payable	23,020
Contracts Payable	8,000
	<hr/>

Total Current Liabilities 57,938

Fund Equity

Retained Earnings	
Unreserved	209,783
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Total Liabilities and Fund Equity \$ 267,721

See accompanying notes to the financial statements

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended June 30, 2003

Operating Revenues	
Foundation Payments	\$298,448
Charges for Services	17,085
Other Operating Revenues	<u>9,780</u>
<i>Total Operating Revenues</i>	325,313
Operating Expenses	
Salaries	210,196
Fringe Benefits	90,164
Purchased Services	139,311
Materials and Supplies	97,266
Depreciation	5,716
Other Operating Expenses	<u>10,266</u>
<i>Total Operating Expenses</i>	552,919
<i>Operating Loss</i>	(227,606)
Non-Operating Revenues	
Operating Grants	436,939
Interest	<u>450</u>
<i>Total Non-Operating Revenues</i>	437,389
<i>Net Income</i>	209,783
<i>Retained Earnings Beginning of Year</i>	<u>-</u>
<i>Retained Earnings End of Year</i>	<u><u>\$209,783</u></u>

See accompanying notes to the financial statements

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

Statement of Cash Flows
For the Year Ended June 30, 2003

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 274,052
Cash Received from Customers	15,735
Cash Received from Other Operating Sources	5,780
Cash Payments to Suppliers for Goods and Services	(226,653)
Cash Payments to Employees for Services	(185,373)
Cash Payments for Employee Benefits	(42,748)
Cash Payments for Other Operating Expenses	(10,266)
	(10,266)

Net Cash Used for Operating Activities (169,473)

Cash Flows from Noncapital Financing Activities

Cash Received from Operating Grants 285,271

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions (28,580)

Cash Flows from Investing Activities

Interest on Investments 450

Net Increase in Cash and Cash Equivalents 87,668

Cash and Cash Equivalents Beginning of Year -

Cash and Cash Equivalents End of Year \$87,668

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

Operating Loss (\$227,606)

Adjustments

Depreciation 5,716

Increase in Assets:

Accounts Receivable (5,350)

Prepaid Assets (171)

Increase in Liabilities:

Accounts Payable 2,095

Accrued Wages and Benefits 24,823

Intergovernmental Payable 23,020

Contracts Payable 8,000

Total Adjustments 58,133

Net Cash Used for Operating Activities (\$169,473)

See accompanying notes to the financial statements

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**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Mollie Kessler Community School (the School) is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 located within the Youngstown City School District. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Mollie Kessler School may sue and be sued in its own name, acquire facilities as needed and contract for services necessary for the operation of the School. Fiscal year 2003 was the first year of operations for the school.

The creation of the School was initially proposed to the Ohio Department of Education by employees of the Association for Children with Learning Disabilities (ACLD) Learning Center and other members of the community on December 12, 2001. The Ohio Department of Education approved the proposal and entered into a contract with the Learning Center which provided for the commencement of School operations on September 9, 2002. The Ohio Department of Education is the School's sponsor.

The School operates under a seven-member Board of Directors appointed by the Mollie Kessler School Developers. Of the seven-member Board, one of the Board members is also on the Board of the ACLD Learning Center. 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 and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by five non-certified personnel, three certificated full time teaching personnel, one full time certificated administrator and one full time treasurer who provide services to forty-five students.

The School participates in one jointly governed organization, the Area Cooperative Computerized Educational Service System, Council of Governments. This organization is presented in Note 10 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 School utilizes enterprise fund accounting. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise fund 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.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This interest bearing depository account is presented in the balance sheet as "Cash and Cash Equivalents". The School has no investments.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars (\$500). The School does not possess any infrastructure.

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

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 in order to offset start-up costs of the School. Revenue received under this program is recognized as non-operating revenue in the accompanying financial statements.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

G. Compensated Absences

Employees of the School receive no vacation days. Each employee of the School is given three sick days per fiscal year which is forfeited if not used by year-end.

H. Federal Tax Exempt Status

On September 5, 2002, the School was granted status as an exempt organization under Internal Revenue Code Section 501 (c) (3) and is exempt from federal income taxes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

3. OPERATING LEASE

The Mollie Kessler School leases the building in which it operates from the ACLD School and Learning Center. The School has entered into a lease for this space for a period of one year from September 1, 2002 through August 31, 2003. The Mollie Kessler School is obligated to pay \$4,000 per month or \$48,000 annually. The lease was renewed for the period September 1, 2003 through August 31, 2004 with a reduced monthly rate of \$2,750 and a lump sum due at June 30, 2004 of \$15,250 for a total annual rent of \$48,000. The lease is renewable annually.

4. DEPOSITS AND INVESTMENTS

At fiscal year-end, the carrying amount of the School's deposits was \$87,668 and the bank balance was \$108,105. \$100,000 of the bank balance was covered by federal depository insurance. \$8,105 was uninsured and uncollateralized.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts receivable and intergovernmental grants. All intergovernmental receivables are considered collectible in full, due to the stable condition of State Programs.

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003 follows:

	<u>Totals</u>
Furniture and Equipment	\$ 28,580
Less Accumulated Depreciation	<u>(5,716)</u>
Net Fixed Assets	<u>\$ 22,864</u>

There was no significant construction in progress at June 30, 2003.

7. RISK MANAGEMENT

A. Property and Liability

The School 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 2003, the School contracted with First Place Insurance Agency, Ltd. for general and professional liability insurance with a \$1,000,000 each occurrence limit, \$1,000,000 annual aggregate with a \$500 deductible and for business personal property with a limit of \$25,000 and a deductible of \$500. No claims have been made by the School as of June 30, 2003.

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll times the contribution rate established by Worker's Compensation for the School.

C. Employee Benefits

The School has contracted with the Anthem Blue Cross/Blue Shied Insurance Company to provide employee health, dental and life benefits. The School pays 100 percent of the monthly premium for single coverage but has no family plan. For fiscal year 2003, the School's premiums varied (depending on the age of the employee) for single coverage per employee per month. An employee may add a spouse or child but the employee pays the entire premium.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. PENSION PLANS

A. School Employees Retirement System

The School 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 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 Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 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. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003, was \$6,536; 43.75 percent has been contributed for fiscal year 2003.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that 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.

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 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 Plan 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 their 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 Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. PENSION PLANS (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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund the pension obligation. Contribution rates are established by STRS, 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.

The School's required contributions for pension obligations to the DB plan for the fiscal year ended June 30, 2003 was \$13,700; 83.68 percent has been contributed for fiscal year 2003. There were no contributions made to the DC and Combined Plans for fiscal year 2003.

9. POSTEMPLOYMENT BENEFITS

The School 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 costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$1,054 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 from fiscal year 2002. 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 2003, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits during the 2003 fiscal year equaled \$6,264.

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

10. JOINTLY GOVERNED ORGANIZATION

Area Cooperative Computerized Educational Service System (ACCESS) Council of Governments

ACCESS Council of Governments (COG) is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports COG based upon a per pupil charge, which was \$40 for fiscal year 2003. The Mollie Kessler School paid \$1,755 to COG during fiscal year 2003. COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of COG including budgeting, appropriating, contracting and designating management. All of COG revenues are generated from charges for services and State funding.

Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

11. CONTINGENCIES

A. Grants

The School 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. However, in the opinion of management, any such disallowed claims will not have a material adverse affect on the overall financial position of the School at June 30, 2003.

**THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. CONTINGENCIES (Continued)

B. 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 laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the action on 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 for oral argument on November 18, 2003. The effect of this suit, if any, on the Mollie Kessler School is presently undeterminable.

12. 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 system 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...".

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

13. PURCHASED SERVICES

For the period of July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$69,168
ACCESS fee	1,755
Teacher In Services	10,263
Cell Phone	50
Postage	522
Advertising	1,053
Printing	500
Rent	<u>56,000</u>
Total	<u>\$139,311</u>

14. RELATED PARTY TRANSACTION

During the fiscal year, the Mollie Kessler School paid \$48,000 in rent to the ACLD Learning Center (see note 3). Of the seven-member Board, one of the Board members on the Mollie Kessler School is also a member on the Board of the ACLD Learning Center.



Auditor of State Betty Montgomery

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

The Mollie Kessler School
Mahoning County
118 East Wood Street
Youngstown, Ohio 44503

To the Governing Board:

We have audited the financial statements of the Mollie Kessler School, Mahoning County, (the School) as of and for the year ended June 30, 2003, the initial audit of the School, and have issued our report thereon dated May 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated May 10, 2004.

The Mollie Kessler School
Mahoning County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

May 10, 2004



**Auditor of State
Betty Montgomery**

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800-282-0370

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THE MOLLIE KESSLER SCHOOL

MAHONING 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
JULY 8, 2004**