



**MANSFIELD COMMUNITY SCHOOL  
RICHLAND COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**MANSFIELD COMMUNITY SCHOOL  
RICHLAND COUNTY  
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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees  
Mansfield Community School  
Richland County  
455 Park Avenue W.  
Mansfield, Ohio 44906

We have audited the accompanying financial statements of the Mansfield Community School, Richland County, Ohio, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mansfield Community School, Richland County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

December 17, 2004

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

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

**Financial Highlights**

Key financial highlights for 2004 include the following:

- In total, net assets increased \$78,407, which represents a 92.6% increase from 2003. This increase is due to an increased enrollment of 53 students resulting in increased state funding and federal subsidies.
- Total assets increased \$132,138, which represents a 125.6% increase from 2003. This increase is due to a \$57,977 increase in due from other governments (DPIA owed by the state of Ohio) and an increase in capital assets (\$117,126) offset by a decrease in the cash balance of \$36,965 which is the result of the uncollected DPIA funds from the state of Ohio.
- Liabilities increased \$53,731 which represents an 262.4% increase from 2003. Accounts payable increased by \$56,024 (due to the uncollected DPIA monies); wages and taxes payables increased \$1,672 and deferred revenue decreased \$3,965.
- Operating revenues increased by \$317,303, which represents a 64.1% increase from 2003. The majority of this increase (\$313,891) is due to increased enrollment resulting in increased state funding.
- Operating expenses increased by \$295,396 which represents a 46.4% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.
- Non-operating revenues increased by \$138,094, which represents a 229.5% increase from 2003. This increase is due to increased state and federal grants.

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

**Using this Financial Report**

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

**Statement of Net Assets**

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

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

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash	\$ 41,696	\$ 78,661
Other Current Assets	61,195	3,218
Security Deposits	-0-	6,000
Capital Assets	<u>134,436</u>	<u>17,310</u>
 Total Assets	 <u>237,327</u>	 <u>105,189</u>
 <b>Liabilities</b>		
Current Liabilities	74,207	20,476
Long-Term Liabilities	<u>-0-</u>	<u>-0-</u>
 Total Liabilities	 <u>74,207</u>	 <u>20,476</u>
 <b>Net Assets</b>		
Net assets	<u>163,120</u>	<u>84,713</u>
 Total Liabilities and Net Assets	 <u>\$ 237,327</u>	 <u>\$ 105,189</u>



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

Net assets increased \$78,407 due primarily to increased enrollment. For assets, cash decreased \$36,965; due from other governments increased \$57,977 due mainly to uncollected DPIA funding; security deposits remained the same and capital assets increased \$117,126 from 2003. For liabilities, accounts payable increased \$56,024 due mainly to uncollected DPIA funding; due to other governments increased \$468; accrued wages and benefits increased \$1,204 and deferred revenues decreased \$3,965 from 2003.

**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, 2004.

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

	<u>2004</u>	<u>2003</u>
<b>Revenues</b>		
Foundation and DPIA Revenues	\$ 787,378	\$ 473,487
Other Operating Revenues	25,164	21,752
Interest	514	323
Federal and State Grants	195,641	59,838
Private Grants and Contributions	<u>2,100</u>	<u>-0-</u>
Total Revenues	<u>1,010,797</u>	<u>555,400</u>
<b>Expenses</b>		
Salaries	367,058	195,496
Fringe Benefits	110,545	61,224
Purchased Services	277,903	201,784
Materials and Supplies	80,820	84,344
Capital Outlay	27,837	80,266
Depreciation	45,270	5,288
Other Operating Expenses	<u>22,957</u>	<u>8,592</u>
Total Expenses	<u>932,390</u>	<u>636,994</u>
<b>Net Income/(Loss)</b>	78,407	(81,594)
Net Assets at Beginning of Year	<u>84,713</u>	<u>166,307</u>
<b>Net Assets at End of Year</b>	<u>\$ 163,120</u>	<u>\$ 84,713</u>

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

Net assets increased in fiscal year ending June 30, 2004 and decreased in fiscal year ending June 30, 2003. This is due in part to increasing revenues due to increasing enrollment in 2004 and a final expenditures relating to federal start up grants in 2003. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations.

The most significant increases in revenues from 2003 to 2004 are Foundation and DPIA (increased \$313,891) due to enrollment increases; Other Operating Revenues (increased \$3,412) due in part to the collection of materials fees and to other miscellaneous income and Federal and State Grants (increased \$135,803) due primarily to enrollment increases.

Most areas of expenses increased from 2003 to 2004. Salaries and Fringe Benefits increased (\$220,883) due to additional staffing and annual increases; Purchased services increased (\$76,119) due to additional instructional services, student support services and administrative services. Materials and Supplies decreased (\$3,524) due to previous years purchases of text book and classroom supplies purchases for additional classes. Capital Outlay decreased (\$52,429) due to prior years purchases for additional classes. Depreciation increased (\$39,982) as result additional capital assets, primarily leasehold improvements, purchased during the year. Other Operating Expenses increased (\$14,365) due to the first years audit (\$7,444) and other miscellaneous items.

**Capital Assets**

As of June 30, 2004 the School had \$134,436 invested in leasehold improvements, computers and office equipment, and furniture and equipment, a \$117,126 increase over June 30, 2003. The following schedule provides a summary of the School's Capital Assets as of June 30, 2003 and 2004.

	<u>2004</u>	<u>2003</u>
<b>Capital Assets (net of depreciation)</b>		
Leasehold Improvements	\$ 107,920	\$ 1,800
Computers and Office Equipment	20,053	10,816
Furniture, Equipment & Materials	<u>6,463</u>	<u>4,694</u>
Net Capital Assets	<u>\$ 134,436</u>	<u>\$ 17,310</u>

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

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

**Current Financial Issues**

Mansfield Community School opened in the fall of 2002. In its second year of operations it has grown from 81 students, eight teaching staff members and expenses of \$636,994 to a total of 134 students, twelve teaching staff members and expenses of \$932,390. DPIA funds due at the end of fiscal year 2004 have been collected during fiscal year 2005. As the School continues to grow we strive to maintain a high level of service, to provide a strong educational product to our students and families and to develop the reputation of a top performing school.

**Contacting the School's Financial Management**

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

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**Mansfield Community School  
Richland County  
Statement of Net Assets  
As of June 30, 2004**

**Assets:**

**Current Assets:**

Cash	\$41,696
Due from Other Governments - DPIA	61,195
	<hr/>
<i>Total Current Assets</i>	102,891

**Non-Current Assets:**

Capital Assets (Net of Accumulated Depreciation)	134,436
	<hr/>
<i>Total Assets</i>	<u><u>\$237,327</u></u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	\$63,392
Due Other Governments	8,561
Accrued Wages and Benefits	1,354
Deferred Revenue	900
	<hr/>
<i>Total Current Liabilities</i>	<u>74,207</u>

**Net Assets:**

Investment in Capital Assets Net of Related Debt	\$134,436
Unrestricted	28,684
	<hr/>
<i>Total Net Assets</i>	<u><u>\$163,120</u></u>

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

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

**Operating Revenues:**

Foundation and DPIA Revenues	\$787,378
Other Operating Revenues	<u>25,164</u>
<i>Total Operating Revenues</i>	<u>812,542</u>

**Operating Expenses:**

Salaries	367,058
Fringe Benefits	110,545
Purchased Services	277,903
Materials and Supplies	80,820
Capital Outlay	27,837
Depreciation	45,270
Other Operating Expenses	<u>22,957</u>
<i>Total Operating Expenses</i>	<u>932,390</u>
Operating Loss	<u>(119,848)</u>

**Non-Operating Revenues:**

Interest	514
Federal and State Grants	195,641
Private Grants and Contributions	<u>2,100</u>
<i>Total Non-Operating Revenues</i>	<u>198,255</u>
Net Income	<u>78,407</u>
Net Assets at Beginning of the Year	<u>84,713</u>
Net Assets at End of Year	<u><u>\$163,120</u></u>

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

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

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$726,183
Cash Payments to Suppliers for Goods and Services	(456,751)
Cash Payments to Employees for Services	(366,366)
Other Operating Revenues	<u>20,893</u>
Net Cash Used for Operating Activities	<u>(76,041)</u>

**Cash Flows from Noncapital Financing Activities:**

Private Grants and Contributions Received	2,100
Federal and State Grants Received	<u>198,859</u>
Net Cash Provided by Noncapital Financing Activities	<u>200,959</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	<u>(162,397)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(162,397)</u>

**Cash Flows from Investing Activities:**

Interest	<u>514</u>
Net Cash Provided by Investing Activities	<u>514</u>

Net (Decrease) in Cash	(36,965)
Cash at Beginning of Year	<u>78,661</u>
Cash at End of Year	<u><u>\$41,696</u></u>

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

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

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

Operating Loss	(\$119,848)
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**Adjustments to Reconcile Operating Loss to  
Net Cash Provided by Operating Activities:**

Depreciation	45,270
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments - DPIA	(61,195)
Decrease in Security Deposits	6,000
Increase in Accounts Payable	56,024
Increase in Due Other Governments	468
Increase in Accrued Wages and Benefits	1,205
(Decrease) in Deferred Revenue	(3,965)
Total Adjustments	43,807
Net Cash Used for Operating Activities	(\$76,041)

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



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

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**I. Description of the School and Reporting Entity**

**Mansfield Community School (MCS)** is a nonprofit corporation established on October 17, 2001 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. On May 5, 2003, MCS was issued a determination letter of 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 MCS' tax-exempt status. MCS, which is part of Ohio's education program, is independent of any school district. MCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MCS.

MCS was approved for operation under a contract between the Governing Authority of MCS and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 MCS 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 Note XII for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

MCS 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. MCS controls one instructional facility staffed by one uncertified and eleven certificated full time teaching personnel who provide services to 134 students

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

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

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**II. Summary of Significant Accounting Policies**

The financial statements of MCS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**1. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**2. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of net assets. Operating statements present increases (*e.g.*, revenues) and decreases (*e.g.*, expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The MCS’s financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the MCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the MCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the MCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

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

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**II. Summary of Significant Accounting Policies (Continued)**

**3. Cash**

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

**4. Budgetary Process**

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

**5. Due from Other Governments**

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

**6. Capital Assets and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. MCS 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, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized.

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

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**II. Summary of Significant Accounting Policies (Continued)**

**6. Capital Assets and Depreciation (Continued)**

Estimated useful lives are as follows:

<b>Capital Asset Classification</b>	<b>Years</b>
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture, Equipment & Materials	10

**7. Intergovernmental Revenues**

MCS 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.

MCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, MCS was awarded \$150,000 during the fiscal year to offset start-up costs of the School. During the 2004 fiscal year \$105,000 from an amount awarded in fiscal year 2003 and \$25,000 from the current year award was received. The remaining balance of \$125,000 will be available for the 2005 fiscal year. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements. Amounts awarded under the above named programs for the 2004 school year totaled \$983,018.

**MANSFIELD COMMUNITY SCHOOL**  
**— A Community School —**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**II. Summary of Significant Accounting Policies (Continued)**

**8. Compensated Absences**

Vacation is taken in a manner which corresponds with the school calendar, therefore, MCS 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. MCS 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.

**9. Deferred Revenue**

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

**10. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**III. Deposits**

At fiscal year end June 30, 2004, the carrying amount of MCS' deposits totaled \$41,696 and its bank balance was \$40,566. All of the bank balance was covered by the Federal Depository Insurance Corporation and none was covered by US Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that US Bank pledge collateral for the deposits of the Mansfield Community School in a pool of securities under Section 135.181 of the Ohio Revised Code.

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

**IV. Capital Assets**

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

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Capital Assets Being Depreciated:				
Leasehold Improvements	\$1,800	\$130,370	\$0	\$132,170
Computers & Office Equipment	13,131	21,646	0	34,777
Furniture, Equipment & Materials	7,667	10,380	0	18,047
Total Assets Being Depreciated	<u>22,598</u>	<u>162,396</u>	<u>0</u>	<u>184,994</u>
Less Accumulated Depreciation:				
Leasehold Improvements	0	(30,289)	0	(30,289)
Computers & Office Equipment	(3,949)	(11,592)	0	(15,541)
Furniture, Equipment & Materials	(1,339)	(3,389)	0	(4,728)
Total Accumulated Depreciation	<u>(5,288)</u>	<u>(45,270)</u>	<u>0</u>	<u>(50,558)</u>
Total Capital Assets, Net	<u>\$17,310</u>	<u>\$117,126</u>	<u>\$0</u>	<u>\$134,436</u>

**V. Purchased Services**

Purchased Services include the following:

Occupancy Costs	\$129,120
Pupil Support Services	17,509
Instruction	1,184
Administrative	112,953
Staff Development	<u>17,137</u>
Total	<u>\$277,903</u>

**VI. Operating Leases**

On August 22, 2003, MCS entered into an agreement with OPUS Corporation for a four-year lease commencing August 1, 2003 and expiring July 31, 2007. Annual lease payments for this space will be \$100,000 paid in equal monthly installments of \$8,333.33.

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

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**VII. Risk Management**

**1. Property and Liability Insurance**

MCS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, MCS contracted with Cincinnati Insurance Company for all of its' insurance.

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

**2. Workers' Compensation**

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

**3. Employee Medical, Dental, and Vision Benefits**

MCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to MCS for insurance benefits was \$46,526.

**VIII. Defined Benefit Pension Plans**

**1. School Employees Retirement System**

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

**MANSFIELD COMMUNITY SCHOOL**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**VIII. Defined Benefit Pension Plans (Continued)**

**1. School Employees Retirement System (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and MCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of MCS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. MCS' required contribution to SERS for the fiscal year ended June 30, 2004 and 2003 was \$2,743 and \$1,480. For fiscal year 2004, MCS contributions totaling \$319 were payable at year end and are reflected as Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

**2. State Teachers Retirement System**

MCS contributes to the State Teachers Retirement System of Ohio ("STRS"), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to



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**VIII. Defined Benefit Pension Plans (Continued)**

**2. State Teachers Retirement System (Continued)**

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, 2002. 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, 2004, plan members were required to contribute 10 percent of their annual covered salary and MCS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

MCS' required contribution to STRS for the fiscal year ended June 30, 2004 and 2003 was \$43,352 and \$23,060. For fiscal year 2004, MCS contributions totaling \$694 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

**IX. Post-Employment Benefits**

MCS 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.

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**IX. Post-Employment Benefits (Continued)**

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For MCS, this amount equaled \$3,335 during fiscal 2004.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For MCS, the amount to fund health care benefits, including surcharge, equaled \$2,472 fiscal 2004.

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

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**X. State School Funding Decision**

On December 11, 2003, 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...".

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

**XI. Contingencies**

**1. Grants**

MCS 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of MCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCS at June 30, 2004.

**2. Litigation**

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

**3. Enrollment FTE**

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

**MANSFIELD COMMUNITY SCHOOL**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**XII. Sponsorship and Management Agreement**

MCS 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 ECS, from the State of Ohio. The total amount due from MCS for the period November 2003 to June 2004 was \$4,005 all of which was paid prior to June 30, 2004.

MCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2004. The agreement was for a period of one year, effective July 1, 2003. Management fees are calculated as 10% of the 2003/2004 Foundation payment received by MCS, as reported in the Monthly Community School Foundation Report. The total amount due from WCS for the fiscal year ending June 30, 2004 was \$78,738 of which \$5,757 was due CCS and is included in accounts payable as of June 30, 2004.

**XIII. Related Parties**

The members of the MCS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Westpark 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. MCS contracts with CCS for legal, financial and business management services.

**XIV. Change in Accounting Principles**

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



**Auditor of State  
Betty Montgomery**

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

Board of Trustees  
Mansfield Community School  
Richland County  
455 Park Avenue W.  
Mansfield, Ohio 44906

We have audited the financial statements of the Mansfield Community School, Richland County, Ohio, (the School) as of and for the year ended June 30, 2004 which comprise the School's basic financial statements and have issued our report thereon dated December 17, 2004, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting 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 December 17, 2004.

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

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

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

**Betty Montgomery**  
Auditor of State

December 17, 2004



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**MANSFIELD COMMUNITY SCHOOL  
RICHLAND 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  
FEBRUARY 15, 2005**