



**Auditor of State
Betty Montgomery**

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Youngstown Community School
Mahoning County
50 Essex Street
Youngstown, Ohio 44502

To the Governing Board:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Youngstown Community School, Mahoning County, as of June 30, 2004, and the changes in its net assets 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 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the 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*"; and GASB Statement No. 38 "*Certain Financial Statement Note Disclosure*".

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that comprise the School's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 27, 2005

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Youngstown Community School's (the "School") 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were \$942,532 at June 30, 2004.
- The School had operating revenues of \$1,931,149 and operating expenses of \$2,224,693 for fiscal year 2004. The School also received \$675,994 in federal and state grants and \$102,000 in donations during fiscal year 2004. Total change in net assets for the fiscal year was an increase of \$264,870.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED

The table below provides a summary of the School's net assets for fiscal year 2004 and 2003.

	Net Assets	
	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Current assets	\$ 996,831	\$ 717,368
Capital assets, net	<u>3,845,039</u>	<u>3,967,343</u>
Total assets	<u>4,841,870</u>	<u>4,684,711</u>
<u>Liabilities</u>		
Current liabilities	394,884	146,455
Long term liabilities	<u>3,504,454</u>	<u>3,858,859</u>
Total liabilities	<u>3,899,338</u>	<u>4,005,314</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	267,276	192,433
Unrestricted	<u>675,256</u>	<u>486,964</u>
Total net assets	<u>\$ 942,532</u>	<u>\$ 679,397</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the School's assets exceeded liabilities by \$942,532.

At year-end, capital assets represented 79.41% of total assets. Capital assets consisted of buildings and furniture and equipment. The amount invested in capital assets, net of related debt at June 30, 2004 was \$267,276. Capital assets are used to provide services to the students and are not available for future spending.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

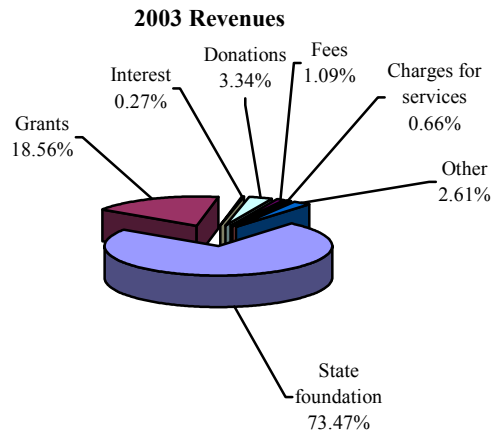
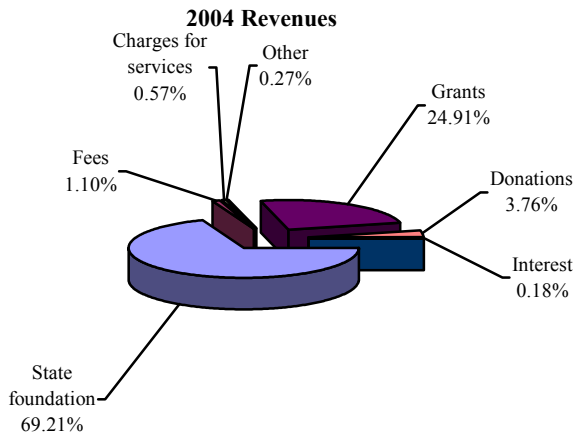
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2004 and 2003.

Change in Net Assets

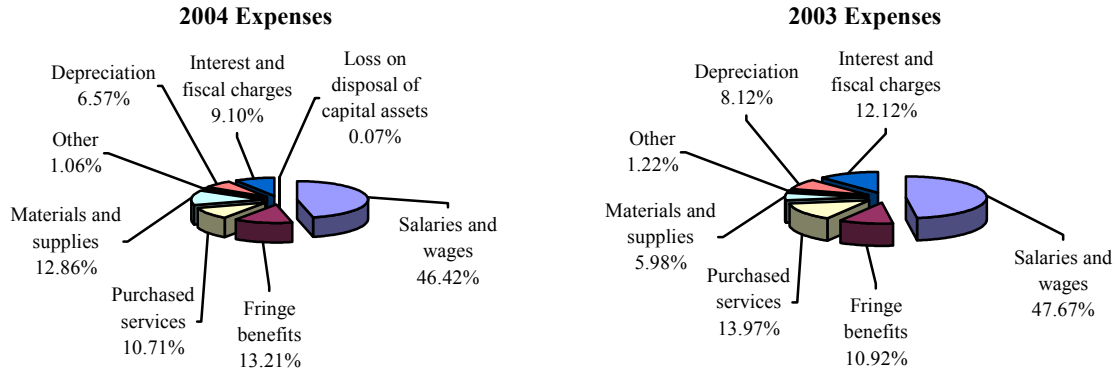
	<u>2004</u>	<u>2003</u>	<u>Percentage Change</u>
<u>Operating Revenues:</u>			
State foundation	\$ 1,878,483	\$ 1,469,263	27.85 %
Fees	29,745	21,756	36.72 %
Charges for services	15,473	13,171	17.48 %
Other	<u>7,448</u>	<u>52,187</u>	(85.73) %
Total operating revenue	<u>1,931,149</u>	<u>1,556,377</u>	24.08 %
<u>Operating Expenses:</u>			
Salaries and wages	1,137,091	922,133	23.31 %
Fringe benefits	323,535	211,180	53.20 %
Purchased services	262,307	270,235	(2.93) %
Materials and supplies	314,931	115,573	172.50 %
Other	25,994	23,628	10.01 %
Depreciation	<u>160,835</u>	<u>156,966</u>	2.46 %
Total operating expenses	<u>2,224,693</u>	<u>1,699,715</u>	30.89 %
<u>Non-operating revenues:</u>			
Federal and state grants	675,994	371,106	82.16 %
Donations	102,000	66,887	52.50 %
Interest income	4,868	5,437	(10.47) %
Interest and fiscal charges	(222,853)	(234,391)	(4.92) %
Loss on disposal of capital assets	<u>(1,595)</u>	<u>-</u>	(100.00) %
Total non-operating revenues	<u>558,414</u>	<u>209,039</u>	167.13 %
Change in net assets	<u>\$ 264,870</u>	<u>\$ 65,701</u>	303.14 %

The charts below illustrate the revenues and expenses for the School during fiscal 2004 and 2003.



**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED**



Current Financial Related Activities

The School was founded by Developing Potential Inc. The School currently operates as an independent, non-profit Ohio public charter school, sponsored by the Ohio Department of Education.

The School is funded through the State's Foundation program, as it has no tax base to draw upon and can not charge tuition, levy taxes, or issue bonds secured by tax revenues. The School may apply for grants and solicit funding support from public and private sources. The School currently participates in the Federal E-Rate program.

Students benefit to a great degree from Federal Programs which enhance the overall curriculum. The School will aggressively pursue adequate funding to secure the financial stability of the School.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Michelle Murphy, Treasurer, Youngstown Community School, 50 Essex Street, Youngstown, Ohio 44502.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Assets:	
<i>Current Assets:</i>	
Equity in pooled cash and cash equivalents.	\$ 871,385
Receivables:	
Accounts	2,420
Intergovernmental	118,267
Prepayments	1,848
Materials and supplies inventory.	<u>2,911</u>
Total current assets	996,831
<i>Non-Current Assets:</i>	
Depreciable capital assets, net	<u>3,845,039</u>
Total assets	<u>4,841,870</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts payable.	7,082
Accrued wages and benefits	151,517
Intergovernmental payable	26,878
Current portion of capital lease obligation	<u>209,407</u>
Total current liabilities	<u>394,884</u>
<i>Long-term liabilities:</i>	
Compensated absences payable	136,098
Capital lease obligation	<u>3,368,356</u>
Total long-term liabilities	<u>3,504,454</u>
Total liabilities	<u>3,899,338</u>
Net Assets:	
Invested in capital assets, net of related debt.	267,276
Unrestricted	<u>675,256</u>
Total net assets.	<u><u>\$ 942,532</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating revenues:	
Foundation payments	\$ 1,878,483
Fees	29,745
Charges for services.	15,473
Other	7,448
Total revenue	<u>1,931,149</u>
Operating expenses:	
Salaries and wages	1,137,091
Fringe benefits	323,535
Purchased services	262,307
Materials and supplies	314,931
Other.	25,994
Depreciation	160,835
Total expenses	<u>2,224,693</u>
Operating loss	<u>(293,544)</u>
Non-operating revenues (expenses):	
Federal and state grants	675,994
Donations	102,000
Interest income.	4,868
Interest and fiscal charges	(222,853)
Loss on disposal of capital assets	(1,595)
Total other financing sources (uses)	<u>558,414</u>
Change in net assets.	264,870
Net assets at beginning of year (restated).	<u>677,662</u>
Net assets at end of year.	<u><u>\$ 942,532</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:	
Cash received from foundation	\$ 1,878,483
Cash received from fees	29,745
Cash received from sales/charges for services	14,413
Cash received from other operations.	7,418
Cash payments for personal services.	(1,370,074)
Cash payments for contractual services.	(262,769)
Cash payments for materials and supplies	(318,609)
Cash payments for other expenses	(25,994)
	(47,387)
Net cash used for operating activities	(47,387)
Cash flows from noncapital financing activities:	
Federal and state grants.	562,474
Donations.	102,000
	664,474
Net cash provided by noncapital financing activities	664,474
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(41,861)
Principal retirement.	(197,147)
Interest and fiscal charges.	(222,853)
	(461,861)
Net cash used for capital and related financing activities	(461,861)
Cash flows from investing activities:	
Interest received	4,868
	4,868
Net cash provided by investing activities	4,868
Net increase in cash and cash equivalents	160,094
Cash and cash equivalents at beginning of year . . .	711,291
Cash and cash equivalents at end of year.	\$ 871,385
	871,385
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (293,544)
Adjustments:	
Depreciation.	160,835
Changes in assets and liabilities:	
Increase in materials and supplies inventory	(2,911)
Increase in accounts receivable	(1,090)
Increase in prepayments	(1,848)
Decrease in accounts payable.	(3,599)
Increase in accrued wages and benefits	33,008
Increase in intergovernmental payable.	9,613
Increase in compensated absences payable	52,149
	52,149
Net cash used for operating activities.	\$ (47,387)
	(47,387)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

Youngstown Community School (the "School") is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 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 Youngstown Community 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.

The creation of the school was initially proposed to the Ohio Department of Education by Developing Potential Inc. on July 17, 1998. The Ohio Department of Education approved the proposal and entered into a contract with Developing Potential Inc. which provided for the commencement of School operations on September 8, 1998. On July 2, 2001, the School became its own incorporation. The School operates as an independent non-profit Ohio public charter school.

The School operates under a seven-member Board of Developers. Of the seven-member Board, one of the Board members was appointed by Developing Potential Inc. 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 Developers controls the School's one instructional/support facility staffed by 7 full-time non-certified personnel, 8 part-time non-certified personnel, 27 full-time certified personnel, 3 part-time certified personnel, one full-time certified principal and one full-time licensed treasurer who provide services to 288 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (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 those pronouncements do not conflict with or contradict GASB pronouncements. The School has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The School has elected not to apply these FASB Statements and Interpretations. The School's significant 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) 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.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise fund 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. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net 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 Ohio Revised Code Section 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 on the Statement of Net Assets as "Equity in Pooled Cash and Cash Equivalents".

E. Capital Assets and Depreciation

Capital assets are capitalized at (cost or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market value as of the date donated. The School maintains a capitalization threshold of \$250. The School does not have any infrastructure. Improvements are 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.

All capital assets are depreciated. Depreciation is computed using the straight-line method. The building is depreciated over an estimated useful life of thirty years. Improvements are depreciated over the remaining useful lives of the related capital assets. Equipment is depreciated over five to ten years.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) 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 have been met. Other grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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 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 School is reporting accurate enrollment data to the State, upon which State Foundation funding is calculated. The review resulted in the discovery of an underpayment to the School in the amount of \$2,378.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. Employees of the School cannot carry over vacation balances from one year to the next. Therefore, the liability for compensated absences payable reported on the Statement of Net Assets does not include a component for vacation liability.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School's termination policy. A liability for compensated absences payable in the amount of \$136,098 is reported on the Statement of Net Assets. The entire amount of this obligation is a long-term liability due in more than one year.

I. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles and Restatement of Net Assets

For fiscal year 2004, the School has implemented 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 for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 34 creates new basic financial statements for reporting on the School's financial activities. The basic financial statements include government-wide financial statements prepared on the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The implementation of these statements had no effect on net assets at June 30, 2003. However, the School has restated the June 30, 2003 balances of capital assets and accumulated depreciation in order to correct errors and omissions from prior reporting periods. The effect of this restatement on net assets at June 30, 2003 is as follows:

<u>Net Assets at June 30, 2003</u>	<u>Restatement</u>	<u>Restated Net Assets at June 30, 2003</u>
\$ 679,397	\$ (1,735)	\$ 677,662

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

At year-end, the carrying amount of the School's deposits was \$871,385 and the bank balance was \$894,644. \$200,000 of the bank balance was covered by federal depository insurance and \$694,644 was collateralized by the financial institution's public entity deposit pool.

NOTE 5 - CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004 follows:

Building	\$ 4,105,953
Furniture and equipment	<u>216,532</u>
Total capital assets	4,322,485
Less: accumulated depreciation	<u>(477,446)</u>
Net capital assets	<u>\$ 3,845,039</u>

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All intergovernmental receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the Statement of Net Assets follows:

Accounts	\$ 2,420
Intergovernmental	<u>118,267</u>
Total	<u>\$ 120,687</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

NOTE 7 - CAPITAL LEASES

In prior fiscal years, the School entered into a lease agreement with Developing Potential Inc. for its building, furniture and equipment. The School's lease obligation met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The building and furniture and equipment have been capitalized in the amounts of \$4,105,953 and \$29,312, respectively, the present value of the minimum lease payments at the inception of the lease. The book value as of June 30, 2004 was \$3,695,358 and \$14,656, respectively. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments is as follows:

<u>Year Ending June 30</u>	
2005	\$ 420,000
2006	420,000
2007	420,000
2008	420,000
2009	420,000
2010 - 2014	2,100,000
2015 - 2016	<u>840,000</u>
Total future minimum lease payments	5,040,000
Less: amount representing interest	<u>(1,462,237)</u>
Present value of future minimum lease payment	<u>\$ 3,577,763</u>

A liability for capital lease obligation in the amount of \$3,577,763 is reported on the Statement of Net Assets. Of this amount, \$209,407 is a current liability due within one year and \$3,368,356 is a long-term liability due in more than one year.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 8 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment, but does not carry forward year to year. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of 1.25 days per month in a twelve month period. Sick leave may be accumulated to a maximum of 180 days for certified and classified employees. Upon retirement, employees receive payment for the total sick leave accumulation.

NOTE 9 - 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 2004, the School contracted with Gallagher Pipino, Incorporated for general and professional liability insurance with a \$1,000,000 each occurrence limit, \$2,000,000 annual aggregate with a \$250 deductible and Accordia Insurance for business personal property with a limit of \$448,000 and a deductible of \$500.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross salary by a factor of approximately one percent.

C. Employee Benefits

The School has contracted with Medical Mutual to provide employee medical benefits. The School pays 100 percent of the monthly premium for single coverage but has no family plan. For fiscal year 2004, the School's premium was fixed for a single employee. An employee may add a spouse or child but the employee pays the entire premium.

NOTE 10 - DEFINED BENEFIT 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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% 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. The adequacy of the contribution rates is determined annually. The School's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$22,476, \$23,324, and \$4,912, respectively; 89.59% has been contributed for fiscal year 2004, and 100% for fiscal years 2003 and 2002.

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 administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The 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 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.

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.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$111,299, \$78,531, and \$41,840, respectively; 93.27% has been contributed for fiscal year 2004, and 100% for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$2,477 made by the School and \$12,234 made by the plan members.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the School, this amount equaled \$8,561 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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.

For this year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 has been established at \$24,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled \$14,022 during the 2004 fiscal year.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 12 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure 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 effect on the overall financial position of the School at June 30, 2004.

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's constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

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

NOTE 13 - PURCHASED SERVICES

For fiscal year ended June 30, 2004, purchased service expenses were as follows:

Professional and technical services	\$ 54,086
Property services	52,940
Travel expenses	5,832
Communications	7,062
Utilities	59,714
Contracted services	74,757
Pupil transportation services	<u>7,916</u>
Total	<u>\$ 262,307</u>

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY, OHIO**

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

NOTE 14 - FEDERAL TAX EXEMPT STATUS

On March 14, 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.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Breakfast Program	LLP4-2004	10.553	\$ 37,814	\$ 37,814
National School Lunch Program	05PU-2004	10.555	69,912	69,912
Total U.S. Department of Agriculture - Nutrition Cluster			107,726	107,726
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B) - 2004	6BSF-2004	84.027	24,871	27,423
Early Child Special Education (2004)	PGS1 2004	84.173	576	576
Total - Special Education Cluster			25,447	27,999
Grants to Local Educational Agencies (ESEA Title I) - 2003	C1S1-2003	84.010	769	-
(ESEA Title I) - 2004	C1S1-2004	84.010	209,265	226,398
Total - CFDA #84.010			210,034	226,398
Drug-Free Schools Grant '2003	DRS1-2003	84.186	-	770
'2004	DRS1-2004	84.186	3,877	3,877
Total - CFDA #84.186			3,877	4,647
Title II - A	TRS1-2004	84.367	22,951	25,671
Title II - D	TJS1-2004	84.318	7,387	5,191
Title II - D	TJS1-2003	84.318	988	-
Total - CFDA #84.318			8,375	5,191
Innovative Educational Program Strategies	C2S1-2003	84.298	155	155
Strategies	C2S1-2004	84.298	1,840	914
Total - CFDA #84.298			1,995	1,069
FERP	822	84.352A	150,617	150,617
Total - CFDA #84.340			150,617	150,617
Total Department of Education			423,296	441,592
Totals			\$ 531,022	\$ 549,318

The accompanying notes to this schedule are an integral part of this schedule.

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Youngstown Community School
Mahoning County
50 Essex Street
Youngstown, Ohio 44502

To the Governing Board:

We have audited the financial statements of Youngstown Community School (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 April 27, 2005, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, and 38. 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.

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*.

Youngstown Community School
Mahoning County
Independent Accountants' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Required By Government Auditing Standards
Page 2

We intend this report solely for the information and use of the audit committee, management, Governing Board, federal awarding agencies, and pass-through entities. It is not intended for 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

April 27, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Youngstown Community School
Mahoning County
50 Essex Street
Youngstown, Ohio 44502

To the Governing Board:

Compliance

We have audited the compliance of Youngstown Community School (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the Youngstown Community School complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, federal awarding agencies, and pass-through entities. It is not intended for 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

April 27, 2005

**YOUNGSTOWN COMMUNITY SCHOOL
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Federal Emergency Repair Grant – CFDA #84.352A
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	None
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3. FINDINGS FOR FEDERAL AWARDS

Finding Number	None
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**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

YOUNGSTOWN COMMUNITY 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
JUNE 2, 2005**