



**Auditor of State
Betty Montgomery**

MADISON COMMUNITY SCHOOL
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Madison Community School
Cuyahoga County
2015 West 95th Street
Cleveland, Ohio 44102

We have audited the accompanying financial statements of the Madison Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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.

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 23, 2005

MADISON COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of Madison Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the Notes to the Financial Statements and the Financial Statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2005 include the following:

- The school began operations during the 2004-2005 school year with lower than desired enrollment. The enrollment for 2005-2006 increased sufficiently to ensure a much improved financial position for the school to build upon and will result in a net asset gain at June 30, 2006.
- In total, net assets decreased \$13,292 from 2004. This decrease is due to lower than anticipated first year enrollment. Enrollment for the 2005-2006 school year increased significantly and will result in the school having a substantially improved financial position at the end of the year.
- Total assets increased \$16,006 from 2004. This increase is due to an increase in net capital assets of \$23,615 partially offset by a decrease of \$13,609 in current assets. The cash balance decrease of \$21,487 is due to the low enrollment and the increase in other current assets of \$7,878 is due to grants and other receivables. The increase in capital assets is due to building improvements and purchases of classroom computers and equipment.
- Liabilities increased \$29,298 from 2004. Accounts payable increased by \$25,647, payroll related liabilities increased \$1,217 and deferred revenues increased \$2,434.
- Operating revenues were \$232,572. The majority of the revenues (\$230,565) are from the state foundation and DPIA program. Additional funding comes from materials fees and miscellaneous sources.
- Operating expenses were \$387,165. The largest portions of expenses are due to staffing (\$165,686) and services purchased by the school (\$120,381) such as building rent, utilities and student support services provided by non-employee personnel (e.g. speech, school nurse, etc.).
- Non-operating revenues were \$141,301. This is mainly from Federal and State Grants in the amount of \$140,624 and private grants totaling \$677.

MADISON COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. This statement includes all of the assets, liabilities and equity balances using the accrual basis of accounting, which is the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the year, regardless as to when the cash is received or expended.

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

	2005	2004
Assets		
Cash	\$ 21,934	\$ 43,421
Other Current Assets	7,878	-0-
Security Deposits	6,000	-0-
Capital Assets	24,365	750
Total Assets	<u>60,177</u>	<u>44,171</u>
Liabilities		
Current Liabilities	29,298	-0-
Total Liabilities	<u>29,298</u>	<u>-0-</u>
Net Assets		
Net Assets	<u>30,879</u>	<u>44,171</u>
Total Liabilities and Net Assets	<u>\$ 60,177</u>	<u>\$ 44,171</u>

Net Assets decreased \$13,292, due primarily to lower than anticipated enrollment. For assets, cash decreased \$21,487; due from other governments increased \$5,328; accounts receivable increased \$2,550, security deposits increased \$6,000 and net capital assets increased \$23,615 from 2004. For liabilities, accounts payable increased \$25,647; due to other governments increased \$193; accrued wages and benefits increased \$1,024 and deferred revenues increased \$2,434 from 2004.

MADISON COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Statement of Revenues, Expenses and Changes in Net Assets

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

The following schedule provides a summary of the School's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2005. Since this is the first year the school has operated and prepared financial statements, revenue and comparisons to fiscal year 2004 are not available. In future years, when prior year information is available, a comparative analysis of the School's data will be presented.

	2005
Revenues	
Foundation and DPIA Revenues	\$ 230,565
Other Operating Revenues	2,007
Private Grants and Contributions	677
Federal and State Grants	140,624
Total Revenues	373,873
Expenses	
Salaries	126,061
Fringe Benefits	39,625
Purchased Services	120,381
Materials and Supplies	67,063
Capital Outlay	20,176
Depreciation	7,206
Other Operating Expenses	6,653
Total Expenses	387,165
Net Income/(Loss)	(13,292)
Net Assets at Beginning of Year	44,171
Net Assets at End of Year	\$ 30,879

MADISON COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Capital Assets

As of June 30, 2005 the School had \$24,365 invested in leasehold improvements, computers, office equipment, furniture, classroom equipment and materials, net of depreciation. This is a \$23,615 increase over June 30, 2004.

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

	<u>2005</u>	<u>2004</u>
Capital Assets (net of depreciation)		
Leasehold Improvements	\$ 12,117	\$ 750
Computers and Office Equipment	7,813	-0-
Furniture, Equipment & Materials	<u>4,435</u>	<u>-0-</u>
 Net Capital Assets	 <u>\$ 24,365</u>	 <u>\$ 750</u>

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

Current Financial Issues

Madison Community School opened in the fall of 2004. In its initial year of operation it had 35 students, three teaching staff members and expenses of \$387,165. For fiscal year 2006 the school is budgeted for a total of 117 students, ten teaching staff members and expenses of \$843,302. The substantial increase in enrollment for the 2005-2006 school year significantly improves the financial position of the school and will result in a positive net asset balance at June 30, 2006. As the School matures to full enrollment we strive to maintain the high level of services we currently offer, to provide a strong educational product to our students and families and to maintain the reputation we have developed during these initial years.

Contacting the School's Financial Management

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

**MADISON COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Net Assets
As of June 30, 2005**

Assets:

Current Assets:

Cash	\$21,934
Due from Other Governments	5,328
Accounts Receivable	<u>2,550</u>
<i>Total Current Assets</i>	29,812

Non-Current Assets:

Security Deposit	\$6,000
Capital Assets (Net of Accumulated Depreciation)	<u>24,365</u>
<i>Total Non-Current Assets</i>	30,365

<i>Total Assets</i>	<u>\$60,177</u>
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Liabilities:

Current Liabilities:

Accounts Payable	\$25,647
Due Other Governments	193
Accrued Wages and Benefits	1,024
Deferred Revenue	<u>2,434</u>
<i>Total Current Liabilities</i>	<u>29,298</u>

Net Assets:

Investment in capital assets, net of related debt	24,365
Unrestricted	<u>6,514</u>
<i>Total Net Assets</i>	<u><u>\$30,879</u></u>

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

**MADISON COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005**

Operating Revenues:

Foundation and DPIA Revenues	\$230,565
Other Operating Revenues	<u>2,007</u>
<i>Total Operating Revenues</i>	<u>232,572</u>

Operating Expenses:

Salaries	126,061
Fringe Benefits	39,625
Purchased Services	120,381
Materials and Supplies	67,063
Capital Outlay	20,176
Depreciation	7,206
Other Operating Expenses	<u>6,653</u>
<i>Total Operating Expenses</i>	<u>387,165</u>
Operating Loss	<u>(154,593)</u>

Non-Operating Revenues:

Federal and State Grants	140,624
Private Grants and Contributions	<u>677</u>
<i>Total Non-Operating Revenues</i>	<u>141,301</u>
Net Loss	<u>(13,292)</u>
Net Assets at Beginning of the Year	<u>44,171</u>
Net Assets at End of Year	<u><u>\$30,879</u></u>

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

**MADISON COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$230,565
Cash Payments to Suppliers for Goods and Services	(234,829)
Cash Payments to Employees for Services	(125,037)
Other Operating Revenues	<u>4,441</u>
Net Cash Used for Operating Activities	<u>(124,860)</u>

Cash Flows from Noncapital Financing Activities:

Private Grants and Contributions Received	677
Federal and State Grants Received	<u>139,517</u>
Net Cash Provided by Noncapital Financing Activities	<u>140,194</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Security Deposits	(6,000)
Payments for Capital Acquisitions	<u>(30,821)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(36,821)</u>

Net Decrease in Cash	(21,487)
Cash at Beginning of Year	<u>43,421</u>
Cash at End of Year	<u><u>\$21,934</u></u>

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

**MADISON COMMUNITY SCHOOL
CUYAHOGA COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
(Continued)**

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

Operating Loss	(\$154,593)
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	7,206
Changes in Assets and Liabilities:	
(Increase) in Due from Other Governments	(4,221)
(Increase) in Accounts Receivable	(2,550)
Increase in Accounts Payable	25,647
Increase in Due Other Governments	193
Increase in Accrued Wages and Benefits	1,024
Increase in Deferred Revenue	2,434
Total Adjustments	29,733
Net Cash Used for Operating Activities	(\$124,860)

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

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

I. Description of the School and Reporting Entity

Madison Community School (MDCS) is a nonprofit corporation established on December 5, 2003 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 February 10, 2005, MDCS applied for tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code which is currently under review. Management is not aware of any course of action or series of events that have occurred that might adversely affect MDCS' tax-exempt status. MDCS, which is part of Ohio's education program, is independent of any school district. MDCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MDCS.

On January 20, 2004 MDCS was approved for operation under a contract between the Governing Authority of MDCS and Lucas County Educational Service Center (LCESC) as their sponsor. 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).

MDCS 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. MDCS controls one instructional facility staffed by three certificated full time teaching personnel who provide services to 35 students.

MDCS 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 MDCS are also board members of CCS, Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Mansfield Community School, Puritas Community School, Stockyard Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students.

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies

The financial statements of MDCS 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. MDCS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of MDCS' accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

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

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

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

3. Cash

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

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 MDCS prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. MDCS will from time to time adopt budget revisions as necessary.

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

5. Due from Other Governments and Accounts Receivable

Moneys due MDCS for the year ended June 30, 2005 are recorded as Due from Other Governments and as Accounts Receivable. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

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. All items with a useful life of one year or greater and a value of \$500 or more 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.

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. Estimated useful lives are as follows:

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

7. Intergovernmental Revenues

MDCS 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.

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

II. Summary of Significant Accounting Policies (Continued)

7. Intergovernmental Revenues (Continued)

MDCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, MDCS was awarded \$150,000 in fiscal year 2004 and \$150,000 in fiscal year 2005 to offset start-up costs of the School. During fiscal year 2005, \$125,000 from the 2004 award was received. 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 2005 school year totaled \$371,189.

8. Compensated Absences

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

10. Deferred Revenue

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

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

III. Deposits

At fiscal year end June 30, 2005, the carrying amount of MDCS' deposits totaled \$21,934 and its bank balance was \$29,641. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, MDCS will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of MDCS.

IV. Capital Assets

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

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/05</u>
Capital Assets Being Depreciated:				
Leasehold Improvements	\$750	\$14,410	\$0	\$15,160
Computers/Office Equipment	0	11,719	0	11,719
Furniture, Equipment & Materials	<u>0</u>	<u>4,692</u>	<u>0</u>	<u>4,692</u>
Total Capital Assets Being Depreciated:	<u>750</u>	<u>30,821</u>	<u>0</u>	<u>31,571</u>
Less Accumulated Depreciation:				
Leasehold Improvements	0	(3,043)	0	(3,043)
Computers & Office Equip	0	(3,906)	0	(3,906)
Furniture, Equipment & Materials	<u>0</u>	<u>(257)</u>	<u>0</u>	<u>(257)</u>
Total Accumulated Depreciation:	<u>0</u>	<u>(7,206)</u>	<u>0</u>	<u>(7,206)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$750</u>	<u>\$23,615</u>	<u>\$0</u>	<u>\$24,365</u>

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

V. Purchased Services

Purchased Services include the following:

Instruction	\$14,118
Pupil Support Services	13,684
Staff Development & Support	4,015
Administrative	16,852
Occupancy Costs	<u>71,712</u>
Total	<u>\$120,381</u>

VI. Operating Leases

MDCS leases its facilities at 2015 West 95th Street, Cleveland from Madison Avenue Baptist Church under a forty-seven month lease agreement effective August 1, 2004 and expiring June 30, 2008. Monthly payments under the terms of the lease are \$6,000. The lease also provides that MDCS will pay \$6,000 for a security deposit at the time the lease was signed. MDCS has an option to purchase the building at a price of \$800,000. During fiscal year 2005 rents totaled \$66,000.

VII. Risk Management

1. Property and Liability Insurance

MDCS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, MDCS contracted with Cincinnati Insurance Company for all of its' insurance.

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

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

VII. Risk Management (Continued)

2. Workers' Compensation

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

3. Employee Medical, Dental, and Vision Benefits

MDCS 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 MDCS for insurance benefits was \$16,657.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

MDCS 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, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and MDCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of MDCS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. MDCS' required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005 was \$1,471. For fiscal year 2005, MDCS has a prepaid contributions balance totaling \$139 at year end which is reflected in Due from Other Governments in the accompanying financial statements. All other required contributions were paid.

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System

MDCS 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 43215-3371 or by calling (614)227-4090.

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

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

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— A Community School —
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FOR THE YEAR ENDED JUNE 30, 2005

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

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

MDCS' required contribution contributions for pension obligations to the DB Plan for the fiscal year ended June 30, 2005 was \$14,048. For fiscal year 2005, MDCS has a prepaid contributions balance totaling \$4,082 at year end which is reflected in Due from Other Governments in the accompanying financial statements. All other required contributions were paid.

IX. Post-Employment Benefits

MDCS 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.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For MDCS, this amount equaled \$1,081 during fiscal 2005.

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

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IX. Post-Employment Benefits (Continued)

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For MDCS, the amount to fund health care benefits, including surcharge, equaled \$1,323 for fiscal 2005.

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

X. 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...".

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

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
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FOR THE YEAR ENDED JUNE 30, 2005

XI. Contingencies

1. Grants

MDCS 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 MDCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MDCS at June 30, 2005.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004 the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on PCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. As of the date of this report there are no adjustments to the state funding received during fiscal year 2005.

MADISON COMMUNITY SCHOOL
— A Community School —
Cuyahoga County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

XII. Sponsorship and Management Agreement

MDCS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. Sponsorship fees are calculated as 1% of state funds received by ECS, from the State of Ohio. The total amount due from MDCS for fiscal year 2005 was \$2,382 all of which was paid prior to June 30, 2005.

MDCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for the fiscal year 2005. The agreement was for a period of one year, effective July 1, 2004. Management fees are calculated as 11% of the 2004/2005 Foundation payment received by MDCS, as reported in the Monthly Community School Foundation Report. CCS waived management fees for the 2005 fiscal year due to the start-up nature of the school and to assist MDCS with their cash flow.

XIII. Related Parties

The members of the MDCS 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, Mansfield Community School, Puritas Community School, Stockyard Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students governing boards. MDCS contracts with CCS for legal, financial and business management services.

XIV. Net Assets

As of the fiscal year ended June 30, 2004, MDCS had Net Assets in the amount of \$44,171 which was comprised of the following:

State Grant Funds	\$75,000
Less total start up expenses incurred for the periods ending June 30, 2004	<u>(30,829)</u>
Net Assets as of June 30, 2004	<u>\$44,171</u>

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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*

Board of Trustees
Madison Community School
Cuyahoga County
2015 West 95th Street
Cleveland, Ohio 44102

We have audited the financial statements of the Madison Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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Madison Community School
Cuyahoga County
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Required by *Government Auditing Standards*
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We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

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 23, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

MADISON COMMUNITY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 12, 2006**