



**Auditor of State
Betty Montgomery**

**MANSFIELD COMMUNITY SCHOOL
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the Mansfield Community School, Richland County, Ohio, (the School) as of and for the year ended June 30, 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 Mansfield Community School, Richland 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

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

The discussion and analysis of Mansfield Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 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:

- In total, net assets decreased \$52,291, which represents a 32.0% decrease from 2004. This decrease is due to enrollment losses from budgeted at the beginning of the year. Even though enrollment increased from 2004 the increase was less than budgeted. Personnel, supplies and equipment expenditures at the beginning of the year were based on the budgeted higher enrollment.
- Total assets decreased \$105,849, which represents a 44.6% decrease from 2004. This decrease is due to a decrease in the year end current assets of \$84,258 and a decrease in net capital assets of \$21,591. The cash balance reduction is due the beginning year enrollment losses along with staffing and text book, equipment and supplies purchases for a higher enrollment. The \$54,723 reduction in Other Current Assets is due to the collection of 2004 DPIA funds during the year. The decrease in capital assets is due primarily to depreciation partially offset by additions to building improvements and purchases of classroom computers and equipment.
- Liabilities decreased \$53,558, which represents a 72.2% decrease from 2004. Accounts payable decreased by \$49,247 (payables were paid as a result of receiving the 2004 DPIA funding mentioned above) and other current liabilities (mainly payroll related) decreased by a total of \$4,311.
- Operating revenues increased by \$111,300, which represents a 13.7% increase from 2004. The increase is due to increased enrollment resulting in increased state funding (\$125,355) offset by reductions in material fees and student activity revenue.
- Operating expenses increased by \$264,766, which represents a 28.4% increase from 2004. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.

MANSFIELD COMMUNITY SCHOOL
Management's Discussion and Analysis
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- Non-operating revenues increased by \$22,768, which represents an 11.5% increase from 2004. This increase is due mainly to increased federal title grants and state grants in the amount of \$24,930, offset by decreased contributions of \$2,100 and decreased interest earned of \$62.

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.

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 12,161	\$ 41,696
Other Current Assets	6,472	61,195
Capital Assets	<u>112,845</u>	<u>134,436</u>
Total Assets	<u>131,478</u>	<u>237,327</u>
Liabilities		
Current Liabilities	20,649	74,207
Long-Term Liabilities	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>20,649</u>	<u>74,207</u>
Net Assets		
Net Assets	<u>110,829</u>	<u>163,120</u>
Total Liabilities and Net Assets	<u>\$ 131,478</u>	<u>\$ 237,327</u>

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

Net Assets decreased \$52,291, due primarily to a reduced cash flow from enrollment losses at the beginning of the year and purchasing additional textbooks and equipment. For assets, cash decreased \$29,535; due from other governments decreased \$54,723; and net capital assets decreased \$21,591 from 2004. For liabilities, accounts payable decreased \$49,247; due to other governments decreased \$6,051; accrued wages and benefits decreased \$401 and deferred revenues increased \$2,141 from 2004.

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 and 2004.

	<u>2005</u>	<u>2004</u>
Revenues		
Foundation and DPIA Revenues	\$ 912,733	\$ 787,378
Other Operating Revenues	11,109	25,164
Interest	452	514
Federal and State Grants	220,571	195,641
Private Grants and Contributions	<u>-0-</u>	<u>2,100</u>
Total Revenues	<u>1,144,865</u>	<u>1,010,797</u>
Expenses		
Salaries	460,882	367,058
Fringe Benefits	133,934	110,545
Purchased Services	393,382	277,903
Materials and Supplies	117,551	80,820
Capital Outlay	14,574	27,837
Depreciation	58,843	45,270
Other Operating Expenses	<u>17,990</u>	<u>22,957</u>
Total Expenses	<u>1,197,156</u>	<u>932,390</u>
Net Income/(Loss)	(52,291)	78,407
Net Assets at Beginning of Year	<u>163,120</u>	<u>84,713</u>
Net Assets at End of Year	<u>\$ 110,829</u>	<u>\$ 163,120</u>

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

Net Assets decreased for fiscal year 2005 and increased for fiscal year 2004, for a combined net increase. The school purchased textbooks and equipment and reduced liabilities during fiscal year 2005. The two year combined increase is due primarily to increasing enrollment. Although certain expenditures such as salaries will increase as the number of classes increases other costs remain fixed such as facilities costs resulting in more efficient operations. Additionally, grants have been received to purchase various educational programs and equipment.

The most significant increases in revenues from 2004 to 2005 are Foundation and DPIA (increased \$125,355) due to enrollment increases and increases in formula amounts and Federal Title Grants and State Grants (increased \$24,930). These increases were offset by a reduction in Federal start-up Grants (decreased \$5,000) due to receiving the final installment in 2005.

Most areas of expenses increased from 2004 to 2005. Salaries and Fringe Benefits increased (\$117,213) due to additional staffing and annual increases; Purchased services increased (\$115,479) due to additional instructional services, pupil support services, administrative services and occupancy costs. Materials and Supplies increased (\$36,731) due to increased text book and classroom supplies purchases for additional enrollment and for facilities supplies. Depreciation increased (\$13,573) as a direct result of the purchase of computers and equipment and additional building improvements. Other Operating Expenses decreased (\$4,967) due to reduced insurance premiums and miscellaneous expenses.

Capital Assets

As of June 30, 2005 the School had \$112,845 invested in leasehold improvements, computers and office equipment and furniture and equipment, net of depreciation. This is a \$21,591 decrease from 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	\$ 74,904	\$ 107,920
Computers and Office Equipment	27,742	19,236
Furniture and Equipment	<u>10,199</u>	<u>7,280</u>
Net Capital Assets	<u>\$ 112,845</u>	<u>\$ 134,436</u>

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

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

Current Financial Issues

Mansfield Community School opened in the fall of 2002. In its third year of operations it has grown from 81 students, eight teaching staff members and expenses of \$636,994 to a total of 149 students, eleven teaching staff members and expenses of \$1,197,156. During the 2005 and current school years the enrollment at the school has leveled off without significant increases. We have been working to increase the enrollment for future years to full enrollment for grades K through 8 of approximately 360 students. As we work to this goal 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.

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**Mansfield Community School
Richland County
Statement of Net Assets
For the Fiscal Year Ended June 30, 2005**

Assets:

Current Assets:

Cash	\$12,161
Due from Other Governments	<u>6,472</u>
<i>Total Current Assets</i>	18,633

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>112,845</u>
<i>Total Assets</i>	<u>\$131,478</u>

Liabilities:

Current Liabilities:

Accounts Payable	\$14,145
Due Other Governments	2,510
Accrued Wages and Benefits	953
Deferred Revenue	<u>3,041</u>
<i>Total Current Liabilities</i>	<u>20,649</u>

Net Assets:

Investment in capital assets, net of related debt	112,845
Unrestricted	<u>(2,016)</u>
<i>Total Net Assets</i>	<u><u>\$110,829</u></u>

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

**Mansfield Community School
Richland County
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005**

Operating Revenues:

Foundation and DPIA Revenues	\$912,733
Other Operating Revenues	<u>11,109</u>
<i>Total Operating Revenues</i>	<u>923,842</u>

Operating Expenses:

Salaries	460,882
Fringe Benefits	133,934
Purchased Services	393,382
Materials and Supplies	117,551
Capital Outlay	14,574
Depreciation	58,843
Other Operating Expenses	<u>17,990</u>
<i>Total Operating Expenses</i>	<u>1,197,156</u>
Operating Loss	<u>(273,314)</u>

Non-Operating Revenues:

Interest	452
Federal and State Grants	<u>220,571</u>
<i>Total Non-Operating Revenues</i>	<u>221,023</u>
Net Loss	<u>(52,291)</u>
Net Assets at Beginning of the Year	<u>163,120</u>
Net Assets at End of Year	<u><u>\$110,829</u></u>

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

**Mansfield Community School
Richland County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005**

Increase (Decrease) in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$973,928
Cash Payments to Suppliers for Goods and Services	(735,640)
Cash Payments to Employees for Services	(458,466)
Other Operating Revenues	<u>13,250</u>
Net Cash Used for Operating Activities	<u>(206,928)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants Received	<u>214,193</u>
Net Cash Provided by Noncapital Financing Activities	<u>214,193</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(37,252)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(37,252)</u>

Cash Flows from Investing Activities:

Interest	<u>452</u>
Net Cash Provided by Investing Activities	<u>452</u>

Net Decrease in Cash	(29,535)
Cash at Beginning of Year	<u>41,696</u>
Cash at End of Year	<u><u>\$12,161</u></u>

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

**Mansfield Community School
Richland County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
(Continued)**

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

Operating Loss	<u>(\$273,314)</u>
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	58,843
Changes in Assets and Liabilities:	
Decrease in Due from Other Governments - DPIA	61,195
(Increase) in Due from Other Governments	(94)
(Decrease) in Accounts Payable	(49,247)
(Decrease) in Due Other Governments	(6,051)
(Decrease) in Accrued Wages and Benefits	(401)
Increase in Deferred Revenue	<u>2,141</u>
Total Adjustments	<u>66,386</u>
Net Cash Used for Operating Activities	<u><u>(\$206,928)</u></u>

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

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

I. Description of the School and Reporting Entity

Mansfield Community School (MCS) is a nonprofit corporation established on October 17, 2001 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. On May 5, 2003, MCS was issued a determination letter of tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect MCS' tax-exempt status. MCS, which is part of Ohio's education program, is independent of any school district. MCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of MCS.

MCS was approved for operation under a contract between the Governing Authority of MCS and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002 and terminating on June 30, 2007. On October 16, 2003 MCS entered into a contract with Lucas County Educational Service Center (LCESC) to have LCESC replace the Ohio Department of Education as their sponsor as required by Sub. HB 364. Under the terms of the contract LCESC will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. See Note XII for further discussion of the sponsor services. The Governing Authority formed an Ohio non-profit corporation, on September 17, 1999 under the name Constellation Community Schools (management company).

MCS operates under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. MCS controls one instructional facility staffed by eleven certificated full time teaching personnel who provide services to 149 students

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

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

II. Summary of Significant Accounting Policies

The financial statements of MCS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. MCS 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 MCS' 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. MCS 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 MCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when the use is first permitted; matching requirements, in which MCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to MCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

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

II. Summary of Significant Accounting Policies (Continued)

For fiscal year 2005, MCS 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 MCS are deposited in demand deposit accounts.

4. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391 MCS 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. MCS will from time to time adopt budget revisions as necessary.

5. Due from Other Governments

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

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

II. Summary of Significant Accounting Policies (Continued)

6. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. MCS does not possess any infrastructure.

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

Depreciation of leasehold improvements, computers, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. 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

MCS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA") and the Federal Lunch Reimbursement Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

MCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, MCS was awarded \$150,000 during the fiscal year 2004 to offset start-up costs of the School. During the 2005 fiscal year \$125,000 from an amount awarded in fiscal year 2004 award was received. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

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

II. Summary of Significant Accounting Policies (Continued)

Amounts awarded under the above named programs for the 2005 school year totaled \$1,133,304.

8. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, MCS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one and one-quarter day per month and can be accrued up to a maximum amount of one hundred twenty days. MCS will accept the transfer of sick days from another school district up to the maximum accrual amount. No financial accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

9. Deferred Revenue

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

10. Use of Estimates

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

III. Deposits

At fiscal year end June 30, 2005, the carrying amount of MCS' deposits totaled \$12,161 and its bank balance was \$22,529. 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.

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

III. Deposits (Continued)

Custodial credit risk is the risk that in the event of bank failure, MCS 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 MCS.

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	\$140,005	\$2,465	\$0	\$142,470
Computers/Office Equipment	34,777	30,149	0	64,926
Furniture, Equipment & Materials	<u>10,212</u>	<u>4,639</u>	<u>0</u>	<u>14,851</u>
Total Capital Assets Being Depreciated:	<u>184,994</u>	<u>37,253</u>	<u>0</u>	<u>222,247</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(32,085)	(35,481)	0	(67,566)
Computers & Office Equip	(15,541)	(21,643)	0	(37,184)
Furniture, Equipment & Materials	<u>(2,932)</u>	<u>(1,720)</u>	<u>0</u>	<u>(4,652)</u>
Total Accumulated Depreciation:	<u>(50,558)</u>	<u>(58,844)</u>	<u>0</u>	<u>(109,402)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$134,436</u>	<u>\$(21,591)</u>	<u>\$0</u>	<u>\$112,845</u>

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

V. Purchased Services

Purchased Services include the following:

Instruction	\$3,663
Pupil Support Services	16,630
Staff Development & Support	39,166
Administrative	148,485
Occupancy Costs	181,518
Food Services	<u>3,920</u>
Total	<u>\$393,382</u>

VI. Operating Leases

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

VII. Risk Management

1. Property and Liability Insurance

MCS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, MCS 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.

2. Workers' Compensation

MCS 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 MCS employees with the Ohio Worker's Compensation System.

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— A Community School —
Richland County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

VII. Risk Management (Continued)

3. Employee Medical, Dental, and Vision Benefits

MCS provides medical, dental and life insurance benefits to all full time employees. Employees participate in premium payments through pretax payroll deductions. For the fiscal year the cost to MCS for insurance benefits was \$52,545.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

MCS contributes to the School Employees Retirement System of Ohio (“SERS”), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and MCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of MCS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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. MCS’ required contribution to SERS for the fiscal year ended June 30, 2005, 2004 and 2003 was \$2,880, \$2,743 and \$1,480. For fiscal year 2005, MCS has a prepaid contributions balance totaling \$94 at year end which is reflected in Due from Other Governments in the accompanying financial statements. All other required contributions were paid.

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

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System

MCS contributes to the State Teachers Retirement System of Ohio (“STRS”), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 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.

MANSFIELD COMMUNITY SCHOOL
— A Community School —
Richland County
NOTES TO THE FINANCIAL STATEMENTS
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 MCS 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.

MCS' required contribution for pension obligations to the DB Plan for the fiscal year ended June 30, 2005, 2004 and 2003 was \$55,333, \$43,352 and \$23,060. For fiscal year 2005, MCS contributions totaling \$420 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

IX. Post-Employment Benefits

MCS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

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 MCS, this amount equaled \$4,256 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.

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

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, a decrease of 1.48 percent from fiscal year 2004. 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 MCS, the amount to fund health care benefits, including surcharge, equaled \$2,611 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, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

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

XI. Contingencies

1. Grants

MCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of MCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCS at June 30, 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 WCS 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.

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

XII. Sponsorship and Management Agreement

MCS entered into an agreement with Lucas County Educational Service Center (LCESC) to provide sponsorship and oversight services as required by law. The agreement is effective October 16, 2003. Sponsorship fees are calculated as 1% of state funds received by ECS, from the State of Ohio. The total amount due from MCS for fiscal year 2005 was \$9,138 all of which was paid prior to June 30, 2005.

MCS 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 MCS, as reported in the Monthly Community School Foundation Report. The total amount due from MCS for fiscal year 2005 was \$100,401 all of which was paid prior to June 30, 2005.

XIII. Related Parties

The members of the MCS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Lorain Community School, Westpark Community School, Puritas Community School, Stockyard Community School, Madison Community School, Greater Cleveland Academy for Gifted Students and Lorain Academy for Gifted Students governing boards. MCS contracts with CCS for legal, financial and business management services.

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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
Mansfield Community School
Richland County
455 Park Avenue West
Mansfield, Ohio 44906

We have audited the financial statements of the Mansfield Community School, Richland County, Ohio, (the School) as of and for the year ended June 30, 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*.

Mansfield Community School
Richland 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 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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MANSFIELD COMMUNITY SCHOOL

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 12, 2006**