TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

JILL NOVAK, TREASURER

Mary Taylor, CPA
Auditor of State

Board of Directors
Tomorrow Center Community School
145 1/2 North Cherry Street
Mount Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of the Tomorrow Center Community School, Morrow County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Tomorrow Center Community School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 27, 2007

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TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY

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Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors
Tomorrow Center Community School
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

We have audited the accompanying financial statements of the Tomorrow Center Community School (the "Center"), Morrow County, Ohio, a component unit of Mt. Gilead Exempted Village School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tomorrow Center Community School, as of June 30, 2006, and the changes in financial position and its cash flows for the fiscal 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 22, 2006, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 22, 2006

TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The management's discussion and analysis of the Tomorrow Center Community School's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "*Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments*" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets were $368,115 at June 30, 2006.
- The Center had operating revenues of $390,093 and operating expenses of $590,029 for fiscal year 2006. Operating loss and the change in net assets for the fiscal year was $(199,936) and $(1,424), respectively.

Using these Basic Financial Statements

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

Reporting the Center Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The table below provides a summary of the Center's net assets for 2006 and 2005.

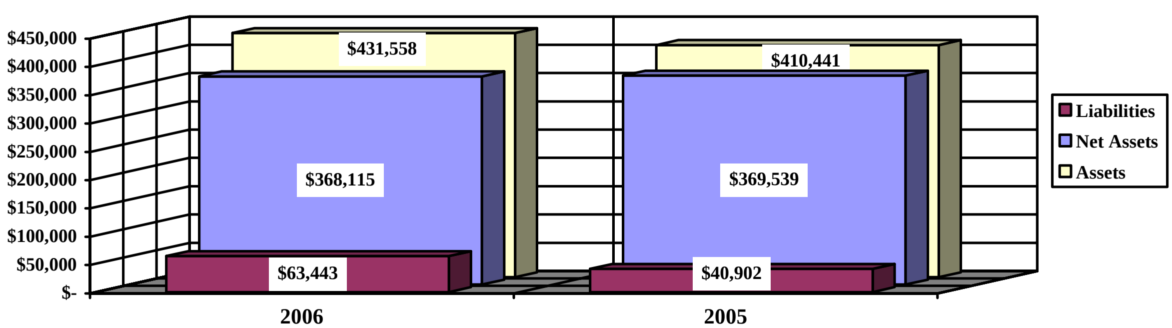
Net Assets

	2006	2005
Assets		
Current assets	$ 288,331	$ 263,121
Capital assets, net	143,227	147,320
Total assets	431,558	410,441
Liabilities		
Liabilities	63,443	40,902
Total liabilities	63,443	40,902
Net Assets		
Invested in capital assets	143,227	147,320
Restricted	40,176	3,938
Unrestricted	184,712	218,281
Total net assets	$ 368,115	$ 369,539

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Center's net assets totaled $368,115, a 0.4% decrease from fiscal 2005.

At year-end, capital assets represented 33.19% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

Net Assets



TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

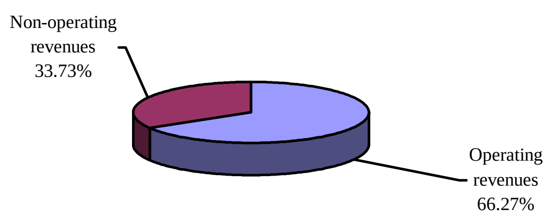
The table below shows the changes in net assets for fiscal year 2006 and 2005.

Change in Net Assets

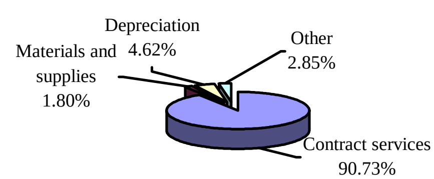
	2006	2005
Operating Revenues:		
State foundation	$ 386,593	$ 560,791
Sales/charges for services	3,500	2,844
Total operating revenue	390,093	563,635
Operating Expenses:		
Contract services	535,354	470,712
Materials and supplies	10,611	50,490
Depreciation	27,252	18,923
Other	16,812	20,211
Total operating expenses	590,029	560,336
Non-operating revenues:		
State and federal grants	188,472	6,243
Interest income	1,540	887
Other local revenue	8,500	292
Total non-operating revenues	198,512	7,422
Change in net assets	$ (1,424)	$ 10,721

The charts below illustrate the revenues and expenses for the Center during fiscal years 2006 and 2005.

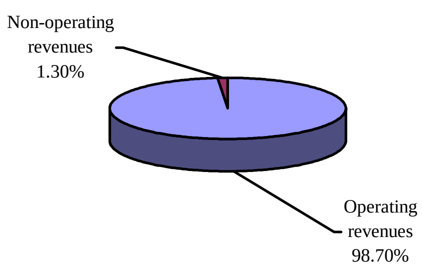
2006 Revenues



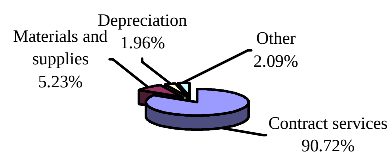
2006 Expenses



2005 Revenues



2005 Expenses



Capital Assets

At June 30, 2006, the Center had $143,227 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Center is a conversion community school sponsored by the Mt. Gilead Exempted Village School district. The sponsorship currently runs through 2007. It is anticipated that this sponsorship will be renewed.

Like most traditional schools the Center is a labor-intensive endeavor. Unlike traditional schools however, a community school cannot levy any taxes and must survive on state revenues and donations. At this time the Center relies solely on the resources provided through State funding. There are no immediate financial concerns outside of controlling health insurance premiums and utility costs. That being stated, the Center's five-year forecast is very healthy and no budgetary cuts are projected in the upcoming five-years.

The Center is committed to operating within its financial means, and to working with the local community and agencies it serves to provide the required educational programs for these students.

Contacting the Center's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact Jill Novak, Treasurer, at Tomorrow Center, 145 ½ North Cherry Street, Mt. Gilead, OH 43338.

BASIC
FINANCIAL STATEMENTS

TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:		
Current:		
Equity in pooled cash and cash equivalents. . .	$	257,263
Receivables:		
Intergovernmental		29,224
Prepayments		1,844
Noncurrent:		
Capital assets, net		143,227
Total assets.		431,558
Current Liabilities:		
Due to primary government		63,343
Intergovernmental payable.		100
Total liabilities		63,443
Net Assets:		
Invested in capital assets		143,227
Restricted for:		
State funded programs.		2,475
Federally funded programs.		37,701
Unrestricted		184,712
Total net assets	$	368,115

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating revenues:		
State foundation.	$	386,593
Sales/charges for services.		3,500
Total operating revenues		390,093
Operating expenses:		
Contract services		535,354
Materials and supplies		10,611
Depreciation		27,252
Other		16,812
Total operating expenses		590,029
Operating loss		(199,936)
Nonoperating revenues:		
Interest revenue		1,540
Other local revenue		8,500
State and federal grants.		188,472
Total nonoperating revenues.		198,512
Change in net assets		(1,424)
Net assets at beginning of year		369,539
Net assets at end of year.	$	368,115

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Cash flows from operating activities:	
Cash received from state foundation	$ 480,208
Cash received from sales/charges for services	3,500
Cash payments for contractual services	(510,946)
Cash payments for materials and supplies	(10,611)
Cash payments for other expenses	(18,656)
Net cash used in operating activities	(56,505)
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	165,491
Cash received from other local revenue	8,500
Net cash provided by noncapital financing activities	173,991
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(23,159)
Net cash used in capital and related financing activities	(23,159)
Cash flows from investing activities:	
Interest received	1,540
Net cash provided by investing activities	1,540
Net increase in cash and cash equivalents	95,867
Cash and cash equivalents at beginning of year	161,396
Cash and cash equivalents at end of year	$ 257,263
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (199,936)
Adjustments:	
Depreciation	27,252
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	93,615
Decrease in prepayments	23
Increase in intergovernmental payable	100
Increase in due to primary government	22,441
Net cash used in operating activities	$ (56,505)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE SCHOOL

Tomorrow Center Community School (the "Center") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Center is an approved tax-exempt organization 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 their tax exempt status. The Center's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, that includes therapeutic opportunities which can be delivered to students in the grades 3 through 12. The Center is a public school that provides an alternative to the traditional educational setting. The Center serves a student population who are identified as at risk due to drug and/or alcohol involvement, severe emotional disturbance, multiple disabilities, partial hospitalization, or as an alternative to suspension/expulsion. The Center, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Center may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Center was certified by the State of Ohio Secretary of State as a non-profit organization on April 23, 2002. The Center was approved for operation under a contract with the Mount Gilead Exempted Village School District (the "Sponsor") for a five year period commencing October 30, 2002. The Sponsor is responsible for evaluating the performance of the Center and has the authority to deny renewal of the contract at its expiration.

The Center operates under the direction of a seven-member Board of Directors. The Center Board of Directors is appointed by the following agencies on a pro-rated basis. Mt. Gilead Exempted Village School District Board of Education (2) representatives, if a Mount Gilead Exempted Village School Board Member is appointed said member(s) will serve as a non-voting ex officio member(s), Mount Gilead Exempted Village School District (2) representatives, Mid-Ohio Educational Service Center (1) representative, Morrow County Job and Family Services (1) representative, Central Ohio Mental Health Center (1) representative, Morrow County Council of Alcohol and Drugs or any successor agency. The Sponsor's treasurer shall be a non-voting ex officio member of the conversion school's Board of Directors. Board of Directors will each serve a (2) two year term. A resignation or vacancy on the Board of Directors will be appointed for the remaining term by the agency that has representation. The Board of Directors 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 qualifications of teachers. The Center is a component unit of Mount Gilead Exempted Village School District.

The Center has developed a cooperative arrangement with the Sponsor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Center has utilized existing programs within the existing structure of the Mount Gilead Exempted Village School District.

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Center has elected not to apply FASB Statement and Interpretations issued after November 30, 1989. The Center's significant accounting policies are described below.

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses in the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the Center and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

All monies received by the Center are deposited in a demand deposit account.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Center maintains a capitalization threshold of $500 for nontechnical and audio/visual equipment and $200 for technical and audiovisual equipment. The Center does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over five to fifteen years.

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

F. Operating Revenues and Expenses

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

G. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Intergovernmental Revenue

The Center currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, the Electronic Management Information System Grant and the Ohio School Net Professional Development Grant, Title VI, Title V and Drug Free Schools grants. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis.

J. Estimates

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all Center deposits was $257,263. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, $100,000 of the School's bank balance of $338,719 was covered by Federal Deposit Insurance Corporation, while $238,719 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. 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 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 the Center.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2006 follows:

	Balance 6/30/05	Additions	Disposals	Balance 6/30/06
Furniture and equipment	$ 174,850	$ 23,159	$ -	$ 198,009
Less: accumulated depreciation	(27,530)	(27,252)	-	(54,782)
Net capital assets	$ 147,320	$ (4,093)	$ -	$ 143,227

NOTE 5 - CONTRACT SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Purchased instructional services	$ 233,574
Purchased administrative services	134,900
Utility expenses	70,032
Other purchased services	96,848
Total	$ 535,354

The above transactions are related party transactions since these services are purchased through the Sponsor, Mount Gilead Exempted Village School District as described in Note 8.

NOTE 6 - RISK MANAGEMENT

The Center 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 2006, the Center has obtained liability insurance from Indiana Insurance Company. A summary of the Centers insurance coverage follows:

Coverage	Limits of Coverage	Deductible
General liability:		
Each occurrence	$ 1,000,000	$ 0
Annual aggregate	2,000,000	0
Commercial umbrella:		
Each occurrence	1,000,000	0
Annual aggregate	1,000,000	0
Employee benefits liability:		
Each occurrence	1,000,000	3,000
Annual aggregate	3,000,000	3,000
Ohio employer's liability:		
Each occurrence	1,000,000	0
Annual aggregate	2,000,000	0
School leader's errors and omissions:		
Each occurrence	1,000,000	2,500
Annual aggregate	1,000,000	2,500
School law enforcement liability:		
Each occurrence	500,000	2,500
Annual aggregate	500,000	2,500
Property	28,647,325	2,500

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2005.

NOTE 7 - CONTINGENCIES

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2006. Management is unaware of any material pending claims that may affect the fiscal 2007 school year.

NOTE 7 - CONTINGENCIES - (Continued)

B. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Center is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts review of enrollment data 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 Center does not have any significant adjustments to state funding for fiscal year 2007, as a result of the reviews which have been completed.

NOTE 8 - SERVICE CONTRACT

The Mount Gilead Exempted Village School District and the Center has entered into a service contract agreement. This agreement states that the Center will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for the Center pursuit to Ohio Revised Code Section 3317.11.

Mount Gilead Exempted Village School District's Board of Education agreed to provide the following services for the Center:

1. Instructional services for the intensive day treatment program
2. Instructional services for the High School S.E.D. program
3. Instructional services for the Recovery/Alcohol program
4. Instructional services for the Suspension Alternative program
5. Collaboration for staff development programs for certified and non-certified staff
6. Planning and consultative services for curriculum development
7. Psychological services as needed for re-evaluations and initial multi-factored evaluations
8. Fiscal services including payroll, retirement, and insurance
9. Student services including E.M.I.S., Nursing, Speech, Guidance, and Therapy
10. Classroom space and administrative services
11. Custodial services
12. Food services
13. Transportation services
14. Supervision/Director services
15. Office Management services
16. Classroom aides for instructional areas
17. Technology support

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both the Center and the Mount Gilead Exempted Village School District.

NOTE 9 - PENSION PLANS

The Center has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the Center of the obligation for remitting pension contributions. The retirement systems consider the Center as the Employer-of-Record and the Center ultimately responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

The Center's Sponsor contributed to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used 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 statutory maximum amounts, by the SERS' Retirement Board. The Center's required contribution for pension obligations to SERS for fiscal year ended 2006 were paid by the Center's Sponsor.

B. State Teachers Retirement System

The Center's Sponsor participated in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

NOTE 9 - PENSION PLANS - (Continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contribution for pension obligations to STRS for fiscal year ended 2006 were paid by the Center's Sponsor.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Center provided 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 funded 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 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 year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was $3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were $254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium 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 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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of $267.5 million, which is about 168 percent of next years projected net health care costs of $158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 11 - RELATED PARTY TRANSACTION

The Center is a component unit of the Sponsor (Mt. Gilead Exempted Village School District). The Center and the Sponsor entered into a 5-year sponsorship agreement on October 30, 2002, whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the Center's fiscal officer.

In fiscal year 2006, payments were made by the Center to the Sponsor totaling $435,105. These represent payments for reimbursements for services provided by the Sponsor to the Center. Also, at fiscal year end, the Center had an outstanding payable to the Sponsor in the amount of $63,343.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Tomorrow Center Community School
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

We have audited the financial statements of the Tomorrow Center Community School (the "Center"), Morrow County, Ohio, a component unit of Mt. Gilead Exempted Village School District, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tomorrow Center Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving internal control over financial reporting that we have reported to the management of the Tomorrow Center Community School in a separate letter dated December 22, 2006.

Board of Directors
Tomorrow Center Community School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tomorrow Center Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters that we have reported to the management of the Tomorrow Center Community School in a separate letter dated December 22, 2006.

This report is intended solely for the information and use of the management and Board of Directors of the Tomorrow Center Community School, and is not intended to be and should not be used by anyone other than these specified parties.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 22, 2006

Mary Taylor, CPA
Auditor of State

TOMORROW CENTER COMMUNITY SCHOOL

MORROW 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
MARCH 13, 2007

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