MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

JAMES LEHMANN, TREASURER

Mary Taylor, CPA
Auditor of State

Board of Directors
Mansfield Elective Academy
124 N. Linden Road
Mansfield, Ohio 44906

We have reviewed the *Independent Auditor's Report* of the Mansfield Elective Academy, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Mansfield Elective Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 3, 2009

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MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

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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
Mansfield Elective Academy
124 N. Linden Road
Mansfield, Ohio 44906

We have audited the accompanying financial statements of Mansfield Elective Academy, Richland County, Ohio, (a component unit of Mansfield City School District), as of and for the fiscal year ended June 30, 2008, which collectively comprise the Mansfield Elective Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy'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 Mansfield Elective Academy as of June 30, 2008 and the respective changes in financial position and its cash flows thereof for the fiscal year ended June 30, 2008, 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 5, 2008 on our consideration of the Mansfield Elective Academy'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 5, 2008

MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The management's discussion and analysis of the Mansfield Elective Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were $349,302 at June 30, 2008.

- The Academy had operating revenues of $356,670, operating expenses of $320,191 and non-operating revenues of $206,595 for fiscal year 2008. Total change in net assets for the period was an increase of $243,074.

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 Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's 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 ask the question, "How did we do financially during 2008?" 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 will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The table below provides a summary of the Academy's net assets for fiscal year 2008 and 2007.

Net Assets

	2008	2007
Assets		
Current assets	$ 389,858	$ 113,194
Capital assets, net	13,534	-
Total assets	403,392	113,194
Liabilities		
Current liabilities	54,090	6,966
Total liabilities	54,090	6,966
Net Assets		
Invested in capital assets	13,534	
Restricted	178,073	31,860
Unrestricted	157,695	74,368
Total net assets	$ 349,302	$ 106,228

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Academy's net assets totaled $349,302.

A portion of the Academy's net assets, $178,073, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of $157,695 may be used to meet the Academy's ongoing obligation to the students and creditors.

At year-end, capital assets represented 3.36% of total assets. Capital assets consisted of 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.

The table below shows the changes in net assets for fiscal years 2008 and 2007.

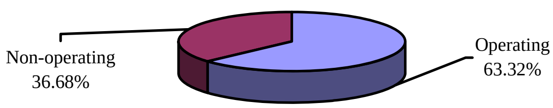
Change in Net Assets

	2008	2007
Operating Revenues:		
State foundation	$ 351,670	$ 328,558
Other	5,000	3,438
Total operating revenue	356,670	331,996
Operating Expenses:		
Purchased services	275,140	345,003
Materials and supplies	33,513	136,468
Other	8,155	144
Depreciation	3,383	-
Total operating expenses	320,191	481,615
Non-operating Revenues:		
Federal and State grants	205,729	167,086
Interest income	866	110
Total non-operating revenues	206,595	167,196
Change in net assets	243,074	17,577
Net assets at beginning of period	106,228	88,651
Net assets at end of period	$ 349,302	$ 106,228

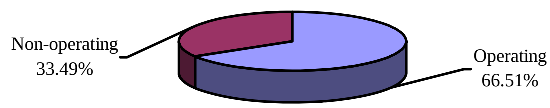
The increase in State foundation revenue is related to the enrollment of the Academy. The decrease in materials and supplies expense is due to the purchase of start-up supplies in fiscal year 2007 necessary to begin operations of the Academy.

The charts below illustrate the revenues for the Academy for fiscal years 2008 and 2007.

2008 Revenues



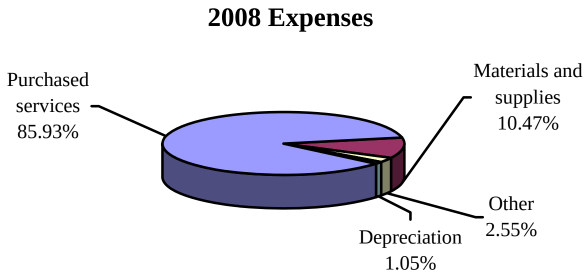
2007 Revenues



MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The charts below illustrate the expenses for the Academy during fiscal years 2008 and 2007.



Capital Assets

At June 30, 2008, the Academy had $13,534 invested in equipment, net of accumulated depreciation. See Note 5 in the notes to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Academy has entered into a service contract for fiscal year 2008 with its Sponsor, Mansfield City School District. In agreement with this contract, the Academy shall utilize certain resources converted to the Academy's use by the Sponsor, including, but not limited, to portions of the Sponsor's facilities, staff, equipment, instructional materials, curriculum, and educational strategy, as determined to be appropriate by the Sponsor, in the Sponsor's sole discretion.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and federal funds that are made available to finance its operations.

Contacting the Digital Academy's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Department, Mansfield Elective Academy, 124 N. Linden Road, Mansfield, Ohio 44906 or email mans_treas@ncocc-k12.org.

BASIC
FINANCIAL STATEMENTS

MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:		
Current assets:		
Cash and cash equivalents	$	146,067
Receivables:		
Intergovernmental		242,847
Prepayments		944
Total current assets		389,858
Non-current assets:		
Capital assets, net		13,534
Total assets		403,392
Liabilities:		
Current liabilities:		
Accounts payable		7,868
Intergovernmental payable		46,222
Total liabilities		54,090
Net Assets:		
Invested in capital assets		13,534
Restricted for:		
Federally funded programs		178,073
Unrestricted		157,695
Total net assets	$	349,302

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:		
State foundation.	$	351,670
Other.		5,000
Total operating revenue		356,670
Operating expenses:		
Purchased services.		275,140
Materials and supplies		33,513
Depreciation		3,383
Other		8,155
Total operating expenses.		320,191
Operating income.		36,479
Non-operating revenues:		
Federal and State grants		205,729
Interest income		866
Total non-operating revenues		206,595
Change in net assets		243,074
Net assets at beginning of year		106,228
Net assets at end of year	$	349,302

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:		
Cash received from State foundation.	$	306,833
Cash received from other operations		5,000
Cash payments to suppliers for goods and services . .		(230,013)
Cash payments for materials and supplies		(32,460)
Cash payments for other expenses		(8,155)
Net cash provided by operating activities		41,205
Cash flows from noncapital financing activities:		
Federal and State grants.		13,697
Net cash provided by noncapital financing activities		13,697
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(16,917)
Net cash used in capital and related financing activities		(16,917)
Cash flows from investing activities:		
Interest received		866
Net cash provided by investing activities		866
Net increase in cash and cash equivalents		38,851
Cash and cash equivalents at beginning of year . . .		107,216
Cash and cash equivalents at end of year.	$	146,067
Reconciliation of operating income to net cash provided by operating activities:		
Operating income.	$	36,479
Adjustments:		
Depreciation.		3,383
Changes in assets and liabilities:		
(Increase) in intergovernmental receivable		(44,837)
(Increase) in prepayments.		(944)
Increase in accounts payable.		1,440
Increase in intergovernmental payable		45,684
Net cash provided by operating activities	$	41,205

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Mansfield Elective Academy (the "Academy") is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to address the needs of "at-risk" students in kindergarten through eighth grade. "At-Risk" students, for purposes of the Academy, can be described as students who live in non-traditional settings. The Academy is nonsectarian in its programs, admission policies employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Mansfield City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

The Academy is an innovative initiative that will be a cooperative effort with Mansfield City Schools (the "Sponsor"). It is a conversion community school sponsored by the Mansfield City School District. The Academy will provide educational opportunities for students in kindergarten through eighth grade. The mission of the Academy is to provide elementary and middle school students living within a guardian family setting a comprehensive educational program that helps meet the academic, psycho-social and emotional needs of the students and offers support to their caregivers and the school community. Enrollment is open to students within the attendance area of the Mansfield City School District and all bordering school districts. In the case of over subscription, a lottery system will be utilized that includes all eligible applicants.

The Academy was approved for sponsorship under contract resolution on April 11, 2004, with the Sponsor for a period of five years commencing on the first day of the 2005-2006 academic year. The Sponsor has designated three of its administrative officers to represent the Sponsor in the occupants' official capacities as members of the Academy's Board of Directors. The individuals who hold such office with the Sponsor shall be formally instructed by the Sponsor that, as directors of the Academy, they are to represent the Sponsor and its interests. From time to time in its discretion, the Sponsor may substitute other administrative positions for those previously designated for this purpose.

Pursuant to the Sponsor's authority under Section 3314.08(G) of the Ohio Revised Code to provide the School with services, the Sponsor shall be the fiscal agent of the School and shall direct the Sponsor's treasurer to serve as the School's fiscal officer. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcome of the community school. Upon dissolution of the Academy, any assets remaining shall be conveyed to the Sponsor.

The service contract for the fiscal year 2007-2008 between the Academy and the Sponsor was also approved. In agreement with the contract, the Academy shall utilize certain resources converted to the Academy's use by the Sponsor including, but not limited, to portions of the Sponsor's facilities, staff, equipment, instructional materials, curriculum and educational strategy, as determined to be appropriate by the Sponsor, at the Sponsor's sole discretion. The price for services rendered by the Sponsor to the Academy is established as the Sponsor's "cost of providing such services including, without limitation, employee salaries and fringe benefits, equipment costs if any, and administrative overhead". All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor and the Sponsor shall be solely responsible for all payroll functions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy 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 Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements did not conflict with or contradict GASB pronouncements. The Academy had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy elected not to apply these FASB Statements and Interpretations. The Academy's significant accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. 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. The statements of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy’s basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded upon the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

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

D. 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 Academy's contract with its Sponsor. The contract between the Academy 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.

E. Cash

Cash held by the Academy is reflected as "cash and cash equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2008, the Academy had no investments. All monies received by the Academy are deposited in a demand deposit account.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of $1,500. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computing using the straight-line method. Equipment is depreciated over five years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for federally funded programs.

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

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

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

I. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Federal Title V-Innovative Programs grant, the Improving Teacher Quality grant, the Federal Title IV Drug Free Schools grant, the Title II-D Technology Grant, the public charter school grant and the EMIS grant. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue for the fiscal year 2008 was $205,729.

J. Estimates

The preparation of basic 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.

K. Prepayments

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2008, the Academy has implemented GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues".

GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2008, the carrying amount of the Academy's deposits was $146,067. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, $79,463 of the Academy's bank balance of $179,463 was exposed to custodial risk as discussed below, while $100,000 was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - DEPOSITS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Academy'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 Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

NOTE 5 - CAPITAL ASSETS

	Balance 6/30/07	Additions	Deductions	Balance 06/30/08
Capital assets, being depreciated:				
Equipment	$ -	$ 16,917	$ -	$ 16,917
Less: accumulated depreciation	-	(3,383)	-	(3,383)
Capital assets, net	$ -	$ 13,534	$ -	$ 13,534

NOTE 6 - RECEIVABLES

Mansfield Elective Academy had the following intergovernmental receivables at June 30, 2008:

State Foundation	$ 50,714
IDEA Part B	32,098
Title I	23,055
Title II-D	152
Title V	181
Charter Schools	135,000
Title IV-A	314
Title II-A	1,333
Total	$ 242,847

The intergovernmental receivables are expected to be collected in the subsequent year.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2008, purchased services expenses were as follows:

Professional and technical services	$ 178,927
Property rental	27,642
Travel and meetings	1,056
Communications	568
Contracted trade	6,547
Other	60,400
Total	$ 275,140

NOTE 8 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2008, the Academy maintained comprehensive insurance coverage with a private carrier for property and general liability insurance. The Academy provides employee bond coverage through Cincinnati Insurance Company in the following amounts: Treasurer $25,000 and Board of Directors $20,000.

Settled claims have not exceeded commercial coverage in the past year. There was no significant reduction in coverage from the prior fiscal year.

NOTE 9 - CONTINGENCIES

A. Grants

The Academy 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 are 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 Academy at June 30, 2008.

B. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

The Academy is not involved in any other litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 9 - CONTINGENCIES - (Continued)

C. State Foundation Funding

The Ohio Department of Education conducts reviews 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. As a result of the review after fiscal year end, the Ohio Department of Education owed the Academy $46,904. Also, at fiscal year end the Ohio Department of Education owed the Academy $3,810 from an underpayment of a monthly foundation settlement. Both amounts are reflected as an intergovernmental receivable on the basic financial statements.

NOTE 10 - SERVICE AGREEMENT

The Academy is contracting with the Sponsor to manage its operations for school years 2007 through 2011. All services are to be provided on a purchased service or reimbursement basis. The Academy paid $113,491 to the Sponsor for educational, fiscal and administrative services during 2008.

NOTE 11 - OPERATING LEASE - LESSEE DISCLOSURE

The Academy entered into a one year operating lease commencing September 1, 2007 and ending August 31, 2008 with the City of Mansfield for the use of classrooms and offices. This lease meets the criteria of an operating lease as defined by FASB Statement No. 13 "Accounting for Leases". The lease payment is $1,700 per month.

Julian & Grube, Inc.
Serving Ohio Local Governments
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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
Mansfield Elective Academy
124 N. Linden Road
Mansfield, Ohio 44906

We have audited the financial statements of Mansfield Elective Academy, Richland County, Ohio, (a component unit of Mansfield City School District), as of and for the fiscal year ended June 30, 2008, which collectively comprise Mansfield Elective Academy's basic financial statements and have issued our report thereon dated December 5, 2008. 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 Mansfield Elective Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mansfield Elective Academy's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Mansfield Elective Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mansfield Elective Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mansfield Elective Academy's financial statements that is more than inconsequential will not be prevented or detected by Mansfield Elective Academy's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 2008-MEA-001.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mansfield Elective Academy's internal control.

Board of Directors
Mansfield Elective Academy

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mansfield Elective Academy'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*.

We noted certain matters that we reported to the management of Mansfield Elective Academy in a separate letter dated December 5, 2008.

Mansfield Elective Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Mansfield Elective Academy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and Board of Directors of Mansfield Elective Academy 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 5, 2008

MANSFIELD ELECTIVE ACADEMY
(A Component Unit of Mansfield City School District)
RICHLAND COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2008-MEA-001

Significant Deficiency

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accounts, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit.* This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the auditor to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered to be significant deficiencies and/or material weaknesses.

The Academy did not maintain sufficient controls in place to report financial data for intergovernmental receivables and capital assets purchased above the Academy's asset threshold limit. Audit adjustments were recorded to properly state these financial statement amounts in the following manner: increase to due from other governments ($135,000) and related increase in operating grants revenue ($135,000); and increase in capital assets ($16,917) and decrease in instructional expense ($16,917) and increase in depreciation expense ($3,383) and increase in accumulated depreciation ($3,383).

The compilation and presentation of financial statements and the related footnotes is the responsibility of management. This responsibility remains intact if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed related to drafting financial statements and footnotes that enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditors to perform this control procedure as auditors must remain independent.

We recommend the Academy implement control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatement or oversights in the financial statements and footnotes. We further recommend that the Treasurer of the Academy's Sponsor review in detail with the consultant (if applicable) the financial report and notes to those financial statements to insure proper inclusion of activities in the Academy's financial statements and notes.

Client Response: The Academy will implement internal controls over financial reporting. The Academy will consult more in depth with its compilation firm to help prevent audit adjustments in the future.

MANSFIELD ELECTIVE ACADEMY

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 17, 2009

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