



**Auditor of State
Betty Montgomery**

MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Minster Community School
Auglaize County
100 East Seventh Street
Minster, Ohio 45865

To the Board of Directors:

We have audited the accompanying financial statements of Minster Community School, Auglaize County, (MCS), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of MCS'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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minster Community School, Auglaize County, as of June 30, 2005, and the 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 March 2, 2006, on our consideration of MCS'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

March 2, 2006

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Minster Community School's (MCS) financial performance provides an overall review of MCS's financial activities for the fiscal year ended June 30, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of MCS's financial performance.

Highlights

MCS, a conversion community school, began its first year of operation in fiscal year 2005 and had one hundred twelve students participating in the program by the end of the fiscal year. MCS had received start-up resources in the prior fiscal year; however, MCS actually began operating as a school in fiscal year 2005.

Using The Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how MCS did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report MCS's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of MCS has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of MCS's net assets for fiscal year 2005 and fiscal year 2004:

	Table 1	
	Net Assets	
	Business Type Activities	
	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$125,000	\$ 94,931
Non Current Assets	54,576	8,883
Total Assets	<u>\$179,576</u>	<u>\$103,814</u>
Net Assets:		
Invested in Capital Assets	54,576	\$ 8,883
Unrestricted	125,000	94,931
Total Net Assets	<u>\$179,576</u>	<u>\$103,814</u>

In the prior fiscal year, MCS's net assets consisted of start-up resources received from the Ohio Department of Education, along with capital assets purchased to begin operations.

At June 30, 2005, assets consisted only of an intergovernmental receivable and capital assets.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2005. Since this is the first year the MCS has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2004 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

**Table 2
Change in Net Assets**

Operating Revenues	
Foundation	\$661,066
Non-Operating Revenues	
Operating Grants	<u>177,243</u>
Total Revenues	<u>838,309</u>
Operating Expenses	
Purchased Services	753,721
Depreciation	8,793
Other Expenses	<u>33</u>
Total Expenses	<u>762,547</u>
Increase in Nets Assets	<u>\$ 75,762</u>

The increase in net assets is attributable to an intergovernmental receivable.

Budgeting

MCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

At the end of fiscal year 2005, MCS had \$54,576 invested in capital assets (net of accumulated depreciation). During fiscal year 2005, MCS purchased \$54,486 in computer equipment. For further information regarding MCS's capital assets, refer to Note 5 to the basic financial statements.

Current Issues

Enrollment has increased to one hundred thirty-four students in fiscal year 2006. The increase is due to opening enrollment to grade six. Although MCS has been receiving grant funds for implementation of the School, the Sponsor school (Minster Local School District) passed a resolution to discontinue operations of MCS at the end of fiscal year 2006 due to limited financial resources available to MCS to meet operating obligations.

Contacting Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCS's finances and to reflect MCS's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Laura S. Klosterman, Treasurer, Minster Community School, 100 East Seventh Street, Minster, Ohio 45865.

MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Current Assets:	
Intergovernmental Receivable	\$125,000
Non current Assets	
Depreciable Capital Assets, Net	<u>54,576</u>
Total Assets	179,576
Net Assets:	
Invested in Capital Assets	54,576
Unrestricted	<u>125,000</u>
Total Net Assets	<u><u>\$179,576</u></u>

See Accompanying Notes to the Basic Financial Statements.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Operating Revenues:	
Intergovernmental Revenue (Foundation)	\$661,066
Operating Expenses:	
Purchased Services	753,721
Depreciation	8,793
Other Expenses	33
Total Operating Expenses	<u>762,547</u>
Operating Loss	(101,481)
Non-Operating Revenues:	
Intergovernmental Operating Grants	<u>177,243</u>
Change in Net Assets	75,762
Net Assets at Beginning of Year - Note 3	<u>103,814</u>
Net Assets at End of Year	<u><u>\$179,576</u></u>

See Accompanying Notes to the Basic Financial Statements.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$661,066
Cash Payments for Services	(753,721)
Cash Payments for Other Expenses	(33)
Net Cash Used for Operating Activities	<u>(92,688)</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	88,998
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Cash Flows from Capital Financing Activities:

Acquisition of Capital Assets	<u>(54,486)</u>
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Net Decrease in Cash and Cash Equivalents	(58,176)
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Cash and Cash Equivalents at Beginning of Year	<u>58,176</u>
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Cash and Cash Equivalents at End of Year	<u><u> </u></u>
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**Reconciliation of Operating Loss
to Net Cash Used for Operating Activities:**

Operating Loss	(101,481)
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Depreciation	8,793
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Net Cash Used for Operating Activities	<u><u>(\$92,688)</u></u>
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See Accompanying Notes to the Basic Financial Statements.

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**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL

Minster Community School (MCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702.

MCS's objective is to deliver students an education through smaller class sizes, varied and quality learning opportunities by identifying and addressing student needs, and team teaching opportunities for teachers. MCS, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCS may acquire facilities as needed and contract for any services necessary for the operation of the school. MCS provided services to students in grades one through five for the fiscal year ended June 30, 2005.

MCS was approved for operation under a contract with the Minster Local School District (the Sponsor) for a five-year period commencing on April 1, 2003. The Sponsor is responsible for evaluating the performance of MCS and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent for MCS with the Treasurer of the Sponsor performing the role of Treasurer for the MCS.

MCS operates under the direction of a five-member Board of Directors made up of the Superintendent, the High School Principal, Middle School Principal, and an Elementary School Principal of the Minster Local School District and one member from the community. The appointment to the Board of Directors is for one year. The Sponsor makes up a majority of the Board of Directors and the Sponsor can impose its will upon MCS; therefore, MCS is a component unit of the Minster Local School District.

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. During fiscal year 2005, services were purchased from Minster Local School District for the plan, design, implementation, instruction, administration, and technical services for MCS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of MCS have been prepared in conformity with generally accepted accounting principles (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. MCS also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. MCS does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. Following are the more significant of the MCS's accounting policies.

A. Basis of Presentation

MCS'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.

MCS uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

MCS is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of MCS are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how MCS finances and meets its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. MCS's financial statements are prepared 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 nonexchange 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 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 the resources are provided to MCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, except section 5705.391 which requires MCS to prepare a five year projection of operational revenues and expenditures. The contract between MCS and its Sponsor does prescribe any additional budget requirements.

E. Capital Assets and Depreciation

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. MCS maintains a capitalization threshold of six hundred dollars. MCS does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs 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. Capital assets, currently consisting of furniture and equipment, are depreciated over five years.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenue

MCS currently participates in the State Foundation and the State Special Education programs. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are 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 first permitted, matching requirements, in which MCS must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided MCS on a reimbursement basis.

MCS participates in various federal and state programs through the Ohio Department of Education. The programs MCS participated in during fiscal year 2005 include: EMIS, IDEA Part B, and the Charter School Grant programs.

Amounts awarded under the above named programs for fiscal year 2005 totaled \$661,066 and \$177,243, respectively.

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 the enabling legislation adopted by MCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. MCS first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. MCS did not have any restricted net assets at fiscal year end. At June 30, 2005, there were no net assets restricted by enabling legislation.

H. Operating Revenues and Expenses

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

I. 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 those estimates.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

For the fiscal year ended June 30, 2005, MCS has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, MCS has changed its basis of accounting from a cash basis to the accrual basis of accounting using an enterprise presentation for its basic financial statements. The restatement to beginning net assets is \$103,814.

4. INTERGOVERNMENTAL RECEIVABLE

Receivables at June 30, 2005, consisted of an intergovernmental receivable arising from grants, in the amount of \$125,000. The receivable is considered collectible in full and within one year.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance	Additions	Reductions	Balance
	July 1, 2004			June 31, 2005
Depreciable Capital Assets				
Furniture and Equipment	\$8,883	\$54,486	\$0	\$63,369
Less Accumulated Depreciation	0	(8,793)	0	(8,793)
Capital Assets, Net	\$8,883	\$45,693	\$0	\$54,576

6. RISK MANAGEMENT

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. During fiscal year 2005, MCS had the following insurance coverage through the Sponsor:

Coverage provided by the Netherlands Insurance Company is as follows:

General Liability	
Per Occurrence	\$1,000,000
In Aggregate	2,000,000
Excess Liability	3,000,000

Settled claims have not exceeded this coverage in fiscal year 2005.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Minster Local School District shall serve as the fiscal officer of MCS.

The Treasurer of Minster Local School District performs the following functions while serving as the Treasurer of MCS:

- Maintains the financial records of MCS in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- Complies with the policies and procedures regarding internal financial control of MCS; and
- Complies with the requirements and procedures for financial audits by the Auditor of the State.

8. RELATED PARTY TRANSACTIONS

In fiscal year 2005, purchased services were obtained from Minster Local School District by MCS, in the amount of \$753,721. The purchased services consisted of the following activities:

<u>Service</u>	<u>Amount</u>
Salaries	\$445,432
Fringe Benefits	164,224
Purchased Services	98,919
Supplies	45,146
Total	<u>\$753,721</u>

9. CONTINGENCIES

A. Grants

MCS 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 MCS at June 30, 2005.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 for fiscal year 2005 indicated that no adjustment was necessary.

**MINSTER COMMUNITY SCHOOL
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. CONTINGENCIES (Continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case for oral arguments was 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, if any, on MCS is not presently determinable.



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*

Minster Community School
Auglaize County
100 East Seventh Street
Minster, Ohio 45865

To the Board of Directors:

We have audited the financial statements of Minster Community School, Auglaize County, (MCS), as of and for the year ended June 30, 2005, and have issued our report thereon dated March 2, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MCS's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to MCS's management dated March 2, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether MCS'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*. In a separate letter to MCS's management dated March 2, 2006, we reported other matters related to noncompliance we deemed immaterial.

Minster Community School
Auglaize County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*

We intend this report solely for the information and use of management and the Board of Directors. 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

March 2, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**MINSTER COMMUNITY SCHOOL
AUGLAIZE 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 28, 2006**