



**Auditor of State
Betty Montgomery**

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Tomorrow Center Community School
Morrow County
145½ North Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

To the Board of Directors:

We have audited the accompanying financial statements of the Tomorrow Center Community School, Morrow County, Ohio (the School), a component unit of Mount Gilead Exempted Village School District, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School'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 the Tomorrow Center Community School, as of June 30, 2005, and its changes in financial position and its 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 February 1, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion & 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

February 1, 2006

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

The management's discussion and analysis of 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, 2005. 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 2005 are as follows:

- In total, net assets were \$369,539 at June 30, 2005.
- The Center had operating revenues of \$563,635 and operating expenses of \$560,336 for fiscal year 2005. Operating income and the change in net assets for the fiscal year was \$3,299 and \$10,721, 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, Expenses 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 2005" 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.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

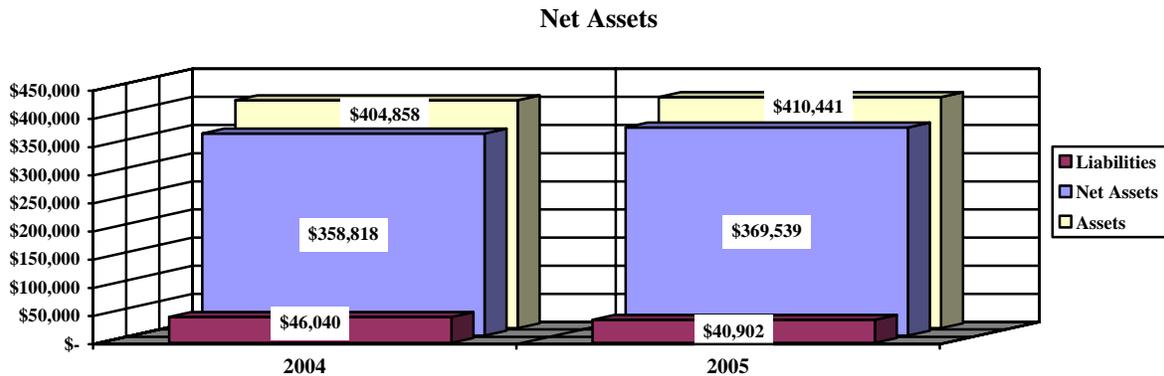
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The table below provides a summary of the Center's net assets for 2005 and 2004.

	Net Assets	
	2005	2004
<u>Assets</u>		
Current assets	\$ 263,121	\$ 357,423
Capital assets, net	147,320	47,435
Total assets	410,441	404,858
<u>Liabilities</u>		
Liabilities	40,902	46,040
Total liabilities	40,902	46,040
<u>Net Assets</u>		
Invested in capital assets	147,320	47,435
Restricted	3,938	30,196
Unrestricted	218,281	281,187
Total net assets	\$ 369,539	\$ 358,818

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Center's net assets totaled \$369,539, a 2.99% increase over fiscal 2004.

At year-end, capital assets represented 35.89% 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.



**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

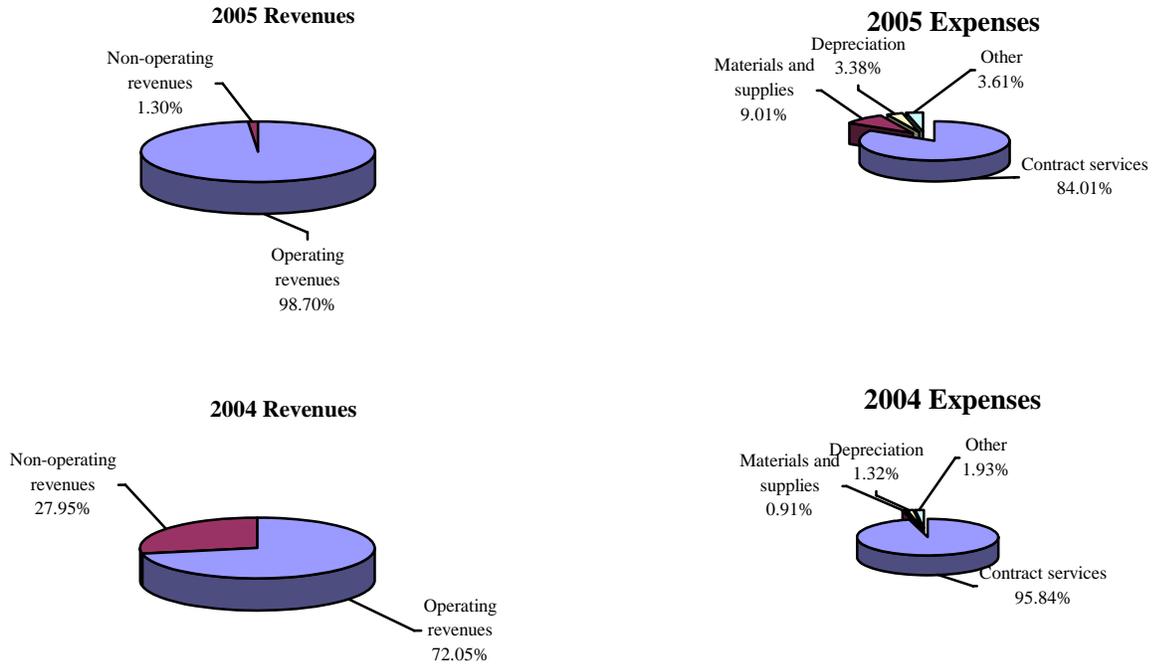
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The table below shows the changes in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	2005	2004
<u>Operating Revenues:</u>		
State foundation	\$ 560,791	\$ 475,479
Sales / charges for services	2,844	-
Total operating revenue	563,635	475,479
<u>Operating Expenses:</u>		
Contract services	470,712	510,638
Materials and supplies	50,490	4,838
Depreciation	18,923	7,042
Other	20,211	10,310
Total operating expenses	560,336	532,828
<u>Non-operating revenues:</u>		
State and federal grants	6,243	155,925
Interest income	887	-
Other local revenue	292	28,523
Total non-operating revenues	7,422	184,448
 Change in net assets	 \$ 10,721	 \$ 127,099

The charts below illustrate the revenues and expenses for the Center during fiscal years 2005 and 2004.



**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

Capital Assets

At June 30, 2005, the Center had \$147,320 invested in furniture and equipment compared to \$47,435 at June 30, 2004, representing an increase of \$99,885. 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, or e-mail me at Jill_n@treca.org.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:

Current:

Equity in pooled cash and cash equivalents.	\$	161,396
Intergovernmental receivable.		99,858
Prepayments		1,867

Noncurrent:

Capital assets, net		147,320
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Total assets.		<u>410,441</u>
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Current Liabilities:

Due to primary government.		<u>40,902</u>
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Total liabilities		<u>40,902</u>
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Net Assets:

Invested in capital assets		147,320
Restricted for:		
State funded programs.		3,676
Federally funded programs.		262
Unrestricted		<u>218,281</u>

Total net assets	\$	<u><u>369,539</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

Operating revenues:	
State foundation	\$ 560,791
Sales/charges for services	2,844
	563,635
Total operating revenues	
Operating expenses:	
Contract services	470,712
Materials and supplies	50,490
Depreciation	18,923
Other	20,211
	560,336
Total operating expenses	
Operating income	
	3,299
Nonoperating revenues:	
State and federal grants	6,243
Interest revenue	887
Other local revenue	292
	7,422
Total nonoperating revenues.	
Change in net assets	
	10,721
Net assets at beginning of year	
	358,818
Net assets at end of year.	
	\$ 369,539

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 560,791
Cash received from sales/charges for services.	2,844
Cash payments for contractual services	(477,717)
Cash payments for materials and supplies	(50,490)
Cash payments for other expenses	(18,271)
	17,157
Net cash provided by operating activities	17,157
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	31,385
Cash received from other local revenue	292
	31,677
Net cash provided by noncapital financing activities.	31,677
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(118,808)
	(118,808)
Net cash used in capital and related financing activities.	(118,808)
Cash flows from investing activities:	
Interest received	887
	887
Net cash provided by investing activities	887
Net decrease in cash and cash equivalents.	(69,087)
Cash and cash equivalents at beginning of year . . .	230,483
Cash and cash equivalents at end of year.	\$ 161,396
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ 3,299
Adjustments:	
Depreciation.	18,923
Changes in assets and liabilities:	
Decrease in prepayments	73
Increase in due to primary government	40,902
Decrease in accounts payable	(46,040)
	(4,962)
Net cash provided by operating activities	\$ 17,157

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

The 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's 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. Members 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.

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 Statements and Interpretations issued after November 30, 1989. The Center's significant accounting policies are described below.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

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 on 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 Statement of Net Assets. 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 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.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

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 amount 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. Revenues received from the State Foundation Program 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.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all School deposits was \$161,396. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$100,000 of the School's bank balance of \$170,725 was covered by Federal Deposit Insurance Corporation, while \$70,725 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 School.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/05</u>
Furniture and equipment	\$ 56,042	\$ 118,808	\$ -	\$ 174,850
Less: accumulated depreciation	<u>(8,607)</u>	<u>(18,923)</u>	<u>-</u>	<u>(27,530)</u>
Net capital assets	<u>\$ 47,435</u>	<u>\$ 99,885</u>	<u>\$ -</u>	<u>\$ 147,320</u>

NOTE 5 - CONTRACT SERVICES

For fiscal year ended June 30, 2005, contract services expenses were as follows:

Purchased instructional services	\$ 204,989
Purchased administrative services	106,714
Utility expenses	43,942
Other contract services	<u>115,067</u>
Total	<u>\$ 470,712</u>

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

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 2005, the Center has obtained liability insurance from Indiana Insurance Company. A summary of the Center's insurance coverage follows:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
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	0
Annual aggregate	3,000,000	0
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 for fiscal year 2005. The Center did not have insurance coverage in the prior fiscal year.

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, 2005. Management is unaware of any material pending claims that may affect the fiscal 2005 school year.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

NOTE 7 - CONTINGENCIES - (Continued)

B. Litigation

A suit was filed in the Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's 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 was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Center is not presently determinable. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the state's public educational system and the matter was sent to the Ohio Supreme Court. 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 results of this review revealed no material amounts due or owed by the Center.

NOTE 8 - SERVICE CONTRACT

The Mount Gilead Exempted Village School District and the Center have 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 pursuant 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

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

NOTE 8 - SERVICE CONTRACT (Continued)

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 - DEFINED BENEFIT 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 contributes on behalf of the Center to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% 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 the fiscal year 2005, 10.57% of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions for pension obligations for the year ended June 30, 2005, were paid by the Center's Sponsor.

B. State Teachers Retirement System

The Center's Sponsor contributes on behalf of the Center to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries and the Center is required to contribute at an actuarially determined rate. The current rate is 14% 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 years 2005 and 2004, 13% of annual covered salary 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% for members and 14% for employers. The Center's required contributions for pension obligations to STRS for the year ended June 30, 2005 were paid by the Center's Sponsor.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The Center's costs were paid by the Center's Sponsor.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY**

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

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. The Center's costs were paid by the Center's Sponsor.

NOTE 11 – RELATED PARTY TRANSACTIONS

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 Center's fiscal officer.

In fiscal year 2005, payments were made by the School to the Sponsor totaling \$409,581. These represent payments for reimbursements for services provided by the Sponsor to Center. Also, at fiscal year end, the School had an outstanding payable to the Sponsor, in the amount of \$40,902.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Tomorrow Center Community School
Morrow County
145½ North Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

To the Board of Education:

We have audited the basic financial statements of Tomorrow Center Community School, Morrow County, Ohio (the School), a component unit of Mount Gilead Exempted Village School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated February 1, 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 the School'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 the School's management dated February 1, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Tomorrow Center Community School
Morrow County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of 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

February 1, 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

**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
FEBRUARY 28, 2006**