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

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE PERIOD
AUGUST 28, 2006 THROUGH JUNE 30, 2007

JAMES A. LEHMANN, TREASURER

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 August 28, 2006 through June 30, 2007. 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

April 9, 2008

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

BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 28, 2006 THROUGH JUNE 30, 2007

TABLE OF CONTENTS

Independent Auditor's Report .... 1 - 2

Management's Discussion and Analysis .... 3 - 6

Basic Financial Statements:

Statement of Net Assets.. 7

Statement of Revenues, Expenses and Changes in Net Assets.. 8

Statement of Cash Flows 9

Notes to the Basic Financial Statements.. 10 - 17

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*.. 18 - 19

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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 period August 28, 2006 through June 30, 2007, 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, 2007 and the respective changes in financial position and its cash flows thereof for the period August 28, 2006 through June 30, 2007, 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 January 31, 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.
January 31, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 28, 2006 THROUGH JUNE 30, 2007
(UNAUDITED)

The discussion and analysis of the Mansfield Elective Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period August 28, 2006 through June 30, 2007. 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.

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". Certain comparative information between the current period and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the Academy comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were $106,228 at June 30, 2007.

- The Academy had operating revenues of $331,996, operating expenses of $481,615 and non-operating revenues of $167,196 for the period August 28, 2006 through June 30, 2007. Total change in net assets for the period was an increase of $17,577.

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 asks the question, "How did we do financially during 2007?" 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 the period August 28, 2006 through June 30, 2007. This is the Academy's first year of operation, comparative information is not available.

Net Assets

	2007
Assets	
Current assets	$ 113,194
Total assets	113,194
Liabilities	
Current liabilities	6,966
Total liabilities	6,966
Net Assets	
Restricted	31,860
Unrestricted	74,368
Total net assets	$ 106,228

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Academy's net assets totaled $106,228.

A portion of the Academy's net assets, $31,680, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of $74,368 may be used to meet the Academy's ongoing obligation to the students and creditors.

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

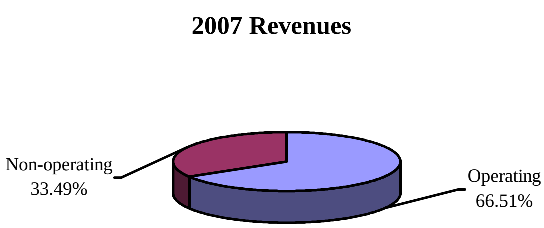
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 28, 2006 THROUGH JUNE 30, 2007
(UNAUDITED)

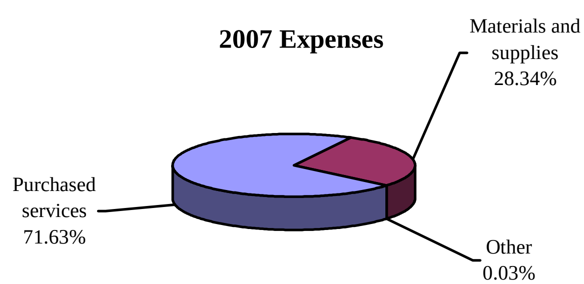
The table below shows the changes in net assets for the period August 28, 2006 through June 30, 2007. This is the Academy's first year of operation, comparative information is not available. The Academy had $88,651 in cash at August 28, 2006 resulting in a beginning net asset balance of $88,651. This was for start-up grant monies received in the period before the Academy began operations.

Change in Net Assets

	2007
Operating Revenues:	
State foundation	$ 328,558
Other	3,438
Total operating revenue	331,996
Operating Expenses:	
Purchased services	345,003
Materials and supplies	136,468
Depreciation	144
Total operating expenses	481,615
Non-operating Revenues:	
Federal and State grants	167,086
Interest income	110
Total non-operating revenues	167,196
Change in net assets	17,577
Net assets at beginning of period	88,651
Net assets at end of period	$ 106,228

The charts below illustrate the revenues and expenses for the Academy for the period August 28, 2006 through June 30, 2007.





Current Financial Related Activities

The Academy has entered into a service contract for fiscal year 2007 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, 2007

Assets:		
Current assets:		
Cash and cash equivalents.	$	107,216
Receivables:		
Intergovernmental.		5,978
Total assets		113,194
Liabilities:		
Current liabilities:		
Accounts payable		6,428
Intergovernmental payable		538
Total liabilities		6,966
Net Assets:		
Restricted for:		
State funded programs.		2,201
Federally funded programs.		29,659
Unrestricted.		74,368
Total net assets	$	106,228

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 PERIOD AUGUST 28, 2006 THROUGH JUNE 30, 2007

Operating revenues:	
State foundation.	$ 328,558
Other.	3,438
Total operating revenue	331,996
Operating expenses:	
Purchased services.	345,003
Materials and supplies	136,468
Other.	144
Total operating expenses.	481,615
Operating loss	(149,619)
Non-operating revenues:	
Federal and state grants	167,086
Interest income	110
Total non-operating revenues	167,196
Change in net assets	17,577
Net assets at beginning of period	88,651
Net assets at end of period	$ 106,228

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 PERIOD AUGUST 28, 2006 THROUGH JUNE 30, 2007

Cash flows from operating activities:		
Cash received from State foundation.	$	322,681
Cash received from other operations		3,438
Cash payments to suppliers for goods and services . .		(338,113)
Cash payments for materials and supplies		(136,392)
Cash payments for other expenses		(144)
Net cash used in operating activities		(148,530)
Cash flows from noncapital financing activities:		
Federal and state grants.		166,985
Net cash provided by noncapital financing activities		166,985
Cash flows from investing activities:		
Interest received		110
Net cash provided by investing activities		110
Net increase in cash and cash equivalents		18,565
Cash and cash equivalents at beginning of period. . .		88,651
Cash and cash equivalents at end of period.	$	107,216
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss.	$	(149,619)
Changes in assets and liabilities:		
Increase in intergovernmental		(5,877)
Increase in accounts payable.		6,428
Increase in intergovernmental payable		538
Net cash used in operating activities	$	(148,530)

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 2006-2007 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’s 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. For the period August 28, 2006 through June 30, 2007, 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 Academy does not have any assets over the capitalization threshold.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. 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. The Academy applies restricted resources first when an expense is incurred 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 State of Ohio Educational Management Information System grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Federal Title II-A Improving Teacher Quality grant, the Title II-D Technology Grant, and the Federal Start-Up grant. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and State grant revenue for the period August 28, 2006 through June 30, 2007 was $167,086.

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.

NOTE 3 - DEPOSITS

At June 30, 2007, the carrying amount of the Academy's deposits was $107,216. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, $30,010 of the Academy's bank balance of $130,010 was exposed to custodial risk as discussed below, while $100,000 was covered by the Federal Deposit Insurance Corporation.

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.

NOTE 4 - RECEIVABLES

At June 30, 2007, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of $5,978.

NOTE 5 - PURCHASED SERVICES

For the period August 28, 2006 through June 30, 2007, purchased services expenses were as follows:

Professional and technical services	$ 160,474
Property rental	17,000
Instructional services	157,283
Travel and meetings	583
Food Services	9,663
Total	$ 345,003

NOTE 6 - 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 the period August 28, 2006 through June 30, 2007, 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 $50,000 and Board of Directors $20,000.

NOTE 7 - 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, 2007.

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.

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 $5,877, which is reflected as an intergovernmental receivable on the basic financial statements.

NOTE 8 - 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 $260,441 to the Sponsor for educational services during 2007.

NOTE 9 - RELATED PARTY

On April 11, 2004, three administrative employees of Mansfield City School District were appointed to the Board of Directors of the Academy. The Academy is a general population community school sponsored by the Mansfield City School District. At the June 30, 2007 school year, the Academy had an enrollment of 41 students.

NOTE 10 - OPERATING LEASE - LESSEE DISCLOSURE

On September 1, 2006, the District entered into a ten month operating lease with the City of Mansfield for the use of classrooms. 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.

NOTE 11 - PENSION PLANS

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

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for fiscal year ended 2007 was $66, which was paid by the Academy's Sponsor.

B. State Teachers Retirement System

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

NOTE 11 - PENSION PLANS - (Continued)

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy’s required contributions for pension obligations to STRS Ohio for fiscal year ended 2007 was $2,349, which was paid by the Academy’s Sponsor.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was $3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were $282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of $295.6 million, which is about 168 percent of next year's projected net health care costs of $158,751 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

The Academy's required contributions for post employment benefit obligations to STRS Ohio of $181 and SERS of $20 were paid by the Academy's sponsor.

NOTE 13 - START-UP PERIOD

The Academy began its operations on August 28, 2006. Prior to August 28, 2006, the Academy had received $88,651 in cash related to start-up grant monies, resulting in beginning net assets at August 30, 2006 of $88,651.

NOTE 14 - SIGNIFICANT SUBSEQUENT EVENT

Effective January 4, 2008, James A. Lehmann was hired as Treasurer of the Academy.

Julian & Grube, Inc.
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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 period August 28, 2006 through June 30, 2007, which collectively comprise Mansfield Elective Academy's basic financial statements and have issued our report thereon dated January 31, 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.

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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Mansfield Elective Academy

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 a certain matter that we reported to the management of Mansfield Elective Academy in a separate letter dated January 31, 2008.

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.
January 31, 2008

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
APRIL 22, 2008